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MORGAN GUARANTY TRUST COMPANY  
OF NEW YORK

A PROSPECTUS OF  
THE STATE OF ALASKA'S  
FINANCES AND ITS  
DEVELOPMENT OF ECONOMIC DIVERSITY

Prepared by:

MORGAN GUARANTY TRUST COMPANY OF NEW YORK  
JANUARY 12, 1976

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Introduction:

Morgan Guaranty Trust Company of New York sincerely believes the State of Alaska has the opportunity for the first time in the past 100 years to diversify its economy through a well thought out economic development program which should <sup>balance</sup> ~~diversify~~ the economy. This development program must involve the State Government's administration and the Legislature, Native Corporations, and private commerce, industry and finance.

But this opportunity, as we all know, can be fraught with problems, selfishness of vested interests, and the results of bad management. It is important to minimize these potential threats to a successful development program. We believe that this can only be done by ensuring that the financial, economic, and legislative elements, necessary to commence the development program through the State of Alaska Permanent Development Fund, be firmly set in place and with reasonable consensus. Only in such a way can the foundation, on which the Permanent Development Fund must sit and rely, be strong enough to allow for the success of this rare economic diversity development opportunity.

Consequently, in the past six months we have started educating ourselves on the laws of the State, the opportunities and guidelines established by the Native Claims Act, and the economy. This educational process will continue certainly through 1976. However, at this time we offer our ideas, suggestions, and some analysis. This analysis is brief, but essential. It primarily involves a credit commentary of

the State and questions relating to revenue and economic development concepts and management. We also provide some suggestions about the Municipal Bond Bank. We explain our suggestions about the proposed constitutional amendment creating the Permanent Fund. And, finally, we embark on a discussion of the Permanent Development Fund.

We realize we are from the "lower 48" which has a history of telling Alaska and its people how it all should be done. What we offer is suggestions based on our experience in the public financial sector and private capital markets. Our task is to try to be of service, even at the risk of drawing conclusions and imparting suggestions which may be controversial or may be critical. We hope our forthrightness will be judged based on the value of truth behind it, not by its face and first impression.

\* \* \*

Credit Commentary (Report Appended)

We are not comfortable with Alaska's present fiscal situation. And we understand neither is the Commissioner of Revenue and the present government. But neither are we comfortable of mortgaging the future, by spending today future oil revenues. Fiscal responsibility is essential in Alaska. Just as we are experiencing in New York, other Eastern States and certain cities in the "lower 48", we think Alaska can and must learn from some of these follies. We are heartened by the approach which the present Alaska Administration is taking to return to a balanced budget and shortly thereafter to considerable surpluses.

However, we want to caution that the debt per capita must be reduced and the size of government, especially in personnel, should not rise. Governmental bodies can no longer rely on the debt markets to fund their priorities. Governments can no longer expect note sales to be refunded by long term bonds for the bond market is not always receptive. Nor can Governments continue to rely on medium or poor quality management. We have seen what many years of bad management has wrought in Government operations and with it more and more people on Government payrolls. Unless and until Alaska can balance its budget, reduce its per capita debt, generate general fund surpluses, and implant top quality management, there will not be the opportunity for a successful Permanent Development Fund, for it will not have the strong foundation necessary for its operations.

Municipal Bond Bank (Report Appended)

The Municipal Bond Bank is conceptually a good vehicle to assist many of the Alaskan communities in having access to the debt markets. However, the Alaska Municipal Bond Bank has some serious deficiencies. They are bond anticipation note authorization, State moral obligation which is a dead issue in the market place, and no State control. In fact, the Alaska Municipal Bond Bank's deficiencies accent the lack of management and control we are experiencing in many governments and feel exist in Alaska. It appears evident in the State's fiscal situation, its present development programs and the Bond Bank. More importantly, the lack of management and control are having con-

siderable negative impact on government debt issuers' ability to arrange financing.

One Commission for Capital Allocation and Control

We believe it mandatory that the State establish one commission to be responsible for the following areas and details:

1. Authority over all debt authorizations -- by the State with general obligation debt; by the State's agencies; by those municipalities who issue apart from the Bond Bank; and by the Bond Bank.
2. Authority over the priorities for all spending. Without this number 1 would be non-operable. Total capital Allocation Authority.
3. Management and financial controls in terms of accounting and monitoring systems of all in number 1 above. Standard accounting practices must be universally adopted. The State must have the authority to audit the books of all government units.
4. The State must schedule all public sales, regardless of the issuing unit. The State must approve all offering circulars, which must be uniform.
5. With numbers 3 and 4, the State must establish and manage a local government financial advisory group for fiscal and debt management and to assist in the day-to-day operations of local subdivisions. Through such a department in this State Commission, the State's financial managers would know the financial conditions of all the subdivisions and would not be called on to bail out a subsidiary, which bail-out may have substantial impact on the State's own financial condition. The

State would know the financial demands being put on the subdivision.

This fiscal management and control commission would have an enormous task and equally enormous power and responsibility to all of Alaska's constituents. While we believe in smaller government payrolls, we feel that the creation of this commission will absorb other departments, divisions and commissions presently existing, and in the long run provide for better operations and minimal net increase in people working in government.

One may notice that we equate the State Government and its fiscal and management responsibility to a large private commercial and industrial corporation. The State is the parent and head office. Its agencies and local subdivisions are its subsidiaries. A subsidiary out of control and not supervised can bankrupt the parent. It is happening in many parts of the "lower 48". But in North Carolina and South Carolina very strong and wide sweeping capital allocation and management control commissions have proven very successful and operable.

We realize these suggestions may sound shocking and may be awesome to fulfill. Indeed, they may be, but we know through bitter experience they are very worthwhile and necessary objectives, which can be realized.

#### New Municipal Finance Regulations

Concurrent with these recommendations are the requirements being placed upon both governmental issuers and Municipal Securities dealers by the new Municipal Finance Regulating subdivision of the Securities and Exchange Commission. Although these regulations are only in draft form at this time, uniformity of accounting and uniform offering circulars

will be required. Full disclosure, similar to private issuers, is going to be the norm. And securities underwriters will be required to analyze prospective issues for their representation and financial soundness. Just as with the State of New Jersey which provided inadequate papers last week, any issuer may find access to the marketplace closed due to "incapable" or "bad" management.

Governor's State of Alaska "Mini-Hoover" Commission

It seems to us that the timing of these recommendations to the State of Alaska is very propitious, inasmuch as the Governor has created a "Mini-Hoover" commission to look into the operations and management of the State Government. If this commission were to analyze the functions of the principal Governmental departments keeping in mind better management, increased centralization, and tight control as the prerequisites of good government, we would suggest that the departments presently labelled Commerce and Economic Development, Public Works, Revenue, and Community and Regional Affairs be consolidated into one major commission. Moreover, the capital spending and aid programs of other departments would have to be approved by this "super" commission. Of course, we would hope that these recommendations, if considered reasonable, be forwarded to the Governor's "Mini-Hoover" commission for study. That commission must realize that no longer will the electorate and investors allow government to just "bump along" with inadequate, or barely adequate, management, systems and control. And certainly whatever recommendations this "mini-commission" makes to the Administration and

Legislature must incorporate the overt change, and requirements placed upon Governments and their subdivisions, by Federal laws, Federal Agencies, national securities dealers and investors, and, of course, lawyers of varying responsibilities.

Management

Once it is fairly well understood why the centralization and the systems and controls, required to allow it all to work, are needed, the necessity of outstanding (no exaggeration) management is paramount. For too long this nation has suffered from the weak or less than highly competent people being elected to government or wishing to be appointed to government. (In the case of Alaska, this may not at all be the case.) Government and the private sector have finally come to realize that the two sectors must work more closely together. Today, we and similar institutions are being called upon to give advice to, and design packages for, Governments. Our advice and products are:

1. Not new as in so many cases they are traditional in private enterprise;
2. Costly services to provide, due to emergency time frame requirements; and
3. Very difficult to implement due to the traditional lines of communication, the history of legislation already in existence, and the cumbersome apparatus that inherently has grown through poor management.

We would recommend that the State of Alaska would have less need over time for costly private advisory and design services, if fairly early-on it adopted a fiscal and management approach based on

the shock waves and warnings just coming to the fore and receiving initial analysis nationwide. The response would allow the State to have the expertise and systems in-house to manage itself well.

Permanent Development Fund

The foregoing discussion impacts directly on the Permanent Development Fund (PDF) and is essential in establishing the PDF framework. We feel there is no apparatus presently established in Alaska to achieve the goals of the PDF. We believe the PDF should be part of the super-commission, incorporating all economic development, commerce, revenue, and community and regional affairs. Certainly, the PDF's purpose is to diversify the economy. This requires most of the capabilities and analysis the commission would be doing for the State and its subdivision even if there were no PDF opportunity.

But let us present to you our views on the PDF. At the outset, we must all realize that the PDF opportunity afforded Alaska is unique among the States of the United States and among most of the nations and supra-national organizations of the world. In fact, the only similar opportunities exist in Saudi Arabia, Venezuela, and perhaps Iran. The similarity is not due to oil, although oil created the opportunity. Rather, these nations have a genuine positive flow of funds, generated by private commercial and industrial enterprise; these nations do not have immediate applications but have long term real economic development opportunities

and needs; and these nations, which are only a few of those which seek funds for development, are the only ones who have their own equity, if they utilize it properly.

A.) The State of Alaska's Permanent Development Fund's Uniqueness

It is important to understand Alaska's uniqueness here, because of the desire of so many people and institutions to study or allude to many development vehicles already established in the world. To cite just four examples: The World Bank, Asian Development Bank, Inter-American Development Bank, and the Development Bank of Puerto Rico. All of these have a great need for capital. None of them has its own source of equity. Each has received "equity" in the form of capital contributions, but mostly guarantees and promises to pay from its constituents, most of whom, in turn, have incredible short falls in capital, little access individually to the world capital markets, and yet huge economic development requirements. Therefore, we must be very careful, in our desire to establish the best vehicles for Alaskan economic development, that we do not borrow from established organizations methods which are neither warranted nor applicable.

The success of the economic development in Saudi Arabia, Venezuela, or Iran and Alaska will depend on the government's ability to join with private enterprises in economically sound and financially feasible projects. Government by definition is a user of funds. It cannot on its own generate funds. And taxes alone are not sufficient as a developing government's only source of funds. So long as Saudi Arabia and Alaska's PDF join with proven private enterprise corporations in private development projects,

then these development entities should be successful (assuming good management). In the right private development project, by definition, the PDF should profit and the economy would diversify.

Additionally, for a development project's success, it must export (or deliver) its product to a viable market. Nations with rapidly expanding exports attract the capital. Alaska must do the same in joining in private enterprises which will provide exports and diversify the economy.

B.) Corporate Structure:

We believe it is so very important for Alaska to create through the PDF a group which is corporate in nature, well-managed with high paid personnel, profit seeking in goal, and long term entrepreneurial in scope. The PDF would provide the capital for an Alaskan Development Corporation (ADC) to commence establishing the expertise to develop the economy further. The ADC could create a Development Bank (DB) which would make loans to the projects. The ADC could create a Finance and Investment Company (FIC) which could package project loans to be participated out (sold) to institutional lenders (insurance companies, state pension funds, savings banks, and major commercial banks) in the "lower-48" and perhaps in other areas of the world. The same investment arm could manage a series of investments in a trust or mutual fund, so that smaller institutions and individuals could buy into it. The significance of the FIC is that it would be attracting capital by offering certain assets. With Alaska, institutional lenders are dealing in an unknown caused by distance, size, type of terrain, etc. If institutional investors could buy loans (perhaps insured by PDF)

from proven management who has servicing and financial know-how capabilities, we believe added capital may be found for sizeable Alaskan commercial projects.

So the PDF has its management corporation (ADC), bank (DB) and finance and investment company (FIC). These three corporations would analyze projects, help design them financially, lend money, arrange a private placement on the project, sell loans, raise debt in the marketplace and work with a private lender/investment banker to attract capital.

In different ways, not well organized nor well managed, fragments of this type operation are happening with some international and Federal government entities. Alaska could do it, if the statutes are passed and management put in place.

C.) PDF Specifics:

We would recommend the PDF also address the following:

1. Only participate in major developmental activities, both non-renewable and renewable resource oriented. There are at least ten programs in Alaska for small development projects. Incidentally, we believe all the present programs, especially the 6 State ones, with which we are familiar, should be reviewed, moved into the super-commission, and perhaps be revamped or dissolved.
2. The projects should be capital intensive, although any project development which diversifies the economy, will attract people and, in some cases, must for its success.
3. The PDF can best fulfill its role with long term loans in

partnership with private industry and private lenders, rather than take equity participations, as a general rule. Equity participations do not provide a scheduled return and any liquidity is represented by the private company's dividend policy or the stock market.

4. The PDF should finance "missing links" in an otherwise viably forecasted project.

5. No organization should be an equity holder in PDF or its subsidiaries. Private lenders should maintain their identities by continuing their policies of making sound loans. This opportunity will arise by participating with the DB and FIC in making loans jointly.

6. The PDF must create a task force/steering committee to study the economy and geography so as to establish its priorities and feasibilities. We are apprehensive if the State Investment Advisory Committee has the time and/or expertise to be the task force or the steering committee for PDF's inception.

7. The PDF must necessitate that the Native Corporations develop their major projects in concert with the PDF.

8. The Native Corporations may be able to gain from the PDF enterprise by creating new villages and ancillary services.

9. The PDF may also have to establish a subsidiary to expand education, energy resources, and other necessities which indirectly diversify the economy. Whatever these may be, the PDF must charge private market rates. (However, most ancillary services should be left to the Native Corporations and municipal subdivisions.)

10. The PDF should not make grants or non-interest bearing loans.

11. The PDF should be designed, established, and managed so as to insulate itself best from vested interests and political suasion.

12. Various ways of effecting leverage of PDF's equity capital. One area is insurance, whereby the PDF insures the issuance and principal investment in PDF/DB bonds or loans. Also, the debt to equity ratios must be considered.

13. Any statutes involving State Government financing and lending should be reviewed in light of Internal Revenue Service regulations on interest rate arbitrage.

D.) PDF Legislation

We have appended suggestions to the proposed legislation creating a PDF. Our comments supporting our proposals are:

1. "A Minimum" of 10% allows the legislature, upon the presentation of the PDF's management, to appropriate more funds, rather than a legislative debate commencing as to the interpretation of "10%" vis-a-vis the final sentence of the paragraph.

2. "directly and indirectly" as there may be (we believe there are) real possibilities to perform in ways which are known as "indirect" but which have a direct impact on furthering economic development - e.g. loan guarantees, insurance of loans, selling loan participations, arranging private placements, etc.

3. "For projects relating to .....such principal.....section." We believe the language should be more specific than "investments", but wish to insure that funds may be invested in U. S. Government securities and money market instruments so as to provide an amount of liquidity for

the PDF's operation and earnings while awaiting the investment in a development project.

4. "Transfers.....pledged." We believe the PDF can expand its capital through the raising of debt - private and public. We believe through the combination of outstanding management and borrowing, the PDF will increase its development financing capacity many times. However, this can only be done if income from its investment is available to service debt expense. Usually, a project loan's debt expense will be serviced by a direct pledge of that project's income. Therefore, PDF's income cannot automatically go to the General Fund. Moreover, we are strongly opposed to the legislature and administration leaning upon the PDF so as to be able to balance the State budget, which may incorporate irresponsible fiscal management. But we do believe PDF's income, not otherwise so encumbered, may be deposited in the General Fund, if PDF's management so wishes and the Legislature so approves.

We must point out, that we approve of brief and succinct constitutional legislation, only if the power exists in the constitution for the legislature to pass statutes which will allow for the greatest flexibility and utmost specifics for implementing the PDF and creating a financial management corporation. We admit to an ignorance of the provisions of the Constitution of the State of Alaska.

#### Conclusion

None of what we have presented here can be accomplished without consistent implementation of concepts to preserve the ecology and environment. We do believe there are viable compromises.

We also believe that over a time period of adjustment modern, economically diversified Alaska and its native population and culture can live in harmony. We feel the natives should and must continue to share in the new prosperity of Alaska. We think vocational schools are the most important educational feature in assisting the economy's development.

We suggest the task force/steering committee must have a budget sufficiently large enough to retain legal counsel, engineering consultants, financial advisors, and any type of specialist necessary to create the best list of priorities and feasibility studies and to place on-stream the management of the PDF and its subsidiaries.

If it is financially and constitutionally possible, we would suggest that the foundation work, necessary to have a PDF and its subsidiaries established in 1977, be undertaken all during 1976, while awaiting the approval of the referendum by the voters next November. (Perhaps statutes can be passed in "escrow".) During 1976, the present economic, commerce, revenue and regional affairs departments should consolidate.

And lastly and most importantly, none of what should be done need be accomplished at the risk of panic or insufficient study. We endorse a policy of "go slowly".

ORGAN GUARANTY TRUST COMPANY  
OF NEW YORK

A P P E N D I X

State of Alaska  
Summary Credit Commentary  
and  
Critique of Legislation for  
Alaskan Municipal Bond Bank

November 18, 1975 (Revised January 2, 1976)  
Morgan Guaranty Trust Company of New York

The Economy

Alaska's position as the stage for America's petroleum version of the "gold rush" makes analysis of the State's economy quite problematical in nature. Extensive capital development has fueled the economy, population has sky-rocketed as people have flocked to the State for high-paying pipeline jobs and the State is already anticipating sizeable cash flows from oil and gas related revenues.

In the case of a state with a viable in-place economy, the oil factor would have been advantageous as an added windfall economic stimulant. Alaska's economy, however, has never had the legitimacy of diversity. Before the oil boom, Alaska's major industry was its fisheries - an industry highly susceptible to foreign competition and roller-coaster prices. Manufacturing was nil, significant wholesale and retail activities were limited by the lack of a sizeable population base, while tourism, lumbering and extractive mineral production were seasonal in nature because of the long and harsh winter. The only stable employment base was in the federal and state government areas, with the U.S. military being a significant employer.

Unfortunately, oil development per se will change little of the above. The spurt of capital development caused by pipeline construction activity is a temporary factor which has created at least as many problems as it has solved. Inflation, fueled by pipeline and oil companies willing to pay bonus money to get the workers they need, and compounded by the need to "import" most food items from the lower forty-eight states, has pushed Consumer Price Index numbers to a level approaching a 20% increase for 1975. Housing accommodations are in desperately short supply due to the influx of oil related workers; and ancillary services such as telephones, police, water, sewer, schools and electrical facilities are vastly overburdened. Other categories of employment are in short labor supply due to pipeline wage competition. Those on fixed incomes in the State are in deep trouble financially.

A potential side benefit of the construction of the pipeline and ancillary facilities will be in the opening of new areas in the State for the development of other extractive and regenerative resources. Exploration for and production of coal, copper, iron and gold and other minerals should increase. Lumbering and the development of fish hatcheries will become more economically viable as the access to new regions is eased and the world's need for raw materials grows.

Alaska's quandary is how to gauge the current hectic pace of economic development, and plan for orderly future growth. Two questions come to mind:

1. Are the gas and oil revenue projections of Alaska premature in light of the short-term possibility of a world glut in oil supply?
2. In what manner should Alaska proceed, should its projected wealth become a reality, in order to stimulate dependable economic diversity and viability?

Financial Operations

Alaska's debt burden of \$1,673.33 per capita is extremely high. As a basis of comparison, median State per capita debt of the fifty states is \$136, according to Moody's - substantially below that of Alaska. Since per capita debt is a function of population, the level will most certainly be higher after the exit of those people associated with pipeline construction. In addition, debt retirement is somewhat slow: 17.4% of outstanding debt matures in five years and 39.6% in ten.

High per capita debt is due to the fact that extraordinary capital expenses for the governmental services associated with pipeline development have been borne through the issuance of debt, drawdown of cash surpluses, and failure to increase State tax revenues. The State is also more heavily involved than is the case in the 'lower forty-eight' in the direct development or subsidization of local services such as schools, ports, and roads, resulting in more dependence upon State financing.

Slow debt retirement is perhaps a result of historic anticipated cash flows from oil related activities. In any event, past debt management policies have placed an undue burden upon Alaska's financial future.

General Fund expenditures have been far in excess of current revenues since the receipt of some \$900 million into the General Fund in 1969-70 as a result of a large oil lease sale. At June 30, 1975, a surplus of \$517 million remained in the General Fund, down from \$645 million the year before. Budgetary increases based upon a governmental policy of running vast deficits coupled with delays in completion of the Trans-Alaska Pipeline (postponing oil royalty revenues) have led the State to anticipate that the current General Fund surplus will be fully eroded by July 1, 1976. In an effort to increase General Fund receipts, a 20 mill tax on the value of oil and gas reserves has been enacted for fiscal 1976 and 1977. This tax is being levied to offset anticipated severance tax revenues which have been delayed as a result of corresponding delays in pipeline completion. Revenues from this source are estimated by the State at \$211.7 million for 1976. In addition, the State intends to hold an additional oil and gas lease sale with regard to the Beaufort Islands area near Prudhoe Bay in 1976. The State speculates some \$250 million in revenues from this source.

Conclusion

Alaska's high per capita debt level and slow debt retirement is disturbing in light of the State's extreme level of budgetary imbalance. Anticipation of oil royalty revenues in future years (by borrowing against such revenues) is extremely dangerous in light of general economic questions being raised about the near-term cost viability of Alaskan oil. Pipeline cost overruns, question-mark Federal tax and energy policies,

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and a potential world oil glut can all contribute to a questionable short-term economic and financial future for the State. There is no doubt that Alaska's oil and gas reserves will eventually pay off significantly, but heavy current debt service requirements coupled with continued severe budgetary deficits could result in financial difficulties over the next three years. Maintenance of General Fund surpluses and a mandatory balanced budget would be a preferable policy as the future of Alaska's economy comes more clearly into focus.

Critique of Legislation for  
Alaskan Municipal Bond Bank

The following comments result from a review of Alaska's Municipal Bond Bank legislation.

We are generally opposed to the use of the financing vehicle afforded by the legislation establishing the Alaska Municipal Bond Bank Authority. While we agree in principle that Alaskan municipalities will need assistance in entering the municipal debt market, we do not feel that this legislation offers a method of assistance commensurate with sound public finance. The following examples of the Act's deficiencies are cited:

1. The legislation allows the issuance of bond anticipation notes to provide municipalities a means of temporary financing. The current municipal market is evidence of the financial danger inherent in the sale of bond anticipation notes should it become impossible to fund such notes with the sale of bonds. The gap has narrowed substantially between documented disclosure requirements necessary for the sale of notes as opposed to bonds, and sound long-term financing is recommended should an option to sell notes or bonds exist.

2. The legislation makes it quite clear that Bond Bank obligations are not an obligation of the State, yet on the other hand it allows the establishment of a reserve fund for the benefit of bondholders. The reserve may be funded by legislative appropriation or from the proceeds of the sale of the bonds. Deficiencies in the fund may legally be made by the legislature through the use of a "moral obligation" certification/appropriation procedure.

The moral obligation pledge no longer provides the marketing advantage it once had. In addition, despite the fact that the bonds are not a direct obligation of the State, the moral pledge creates what can be construed as a contingency obligation for the State - an obligation which is unnecessary in a State with an already high debt load.

3. The legislation mentions little or no control over the debt policies of the participating municipalities. Recent municipal finance experience has demonstrated the value of State overview of municipal finance activities.

It is suggested, therefore, that this legislation be amended: to eliminate the power of the Bank to issue bond anticipation notes; to remove the moral pledge of the legislature to fund reserve fund deficiencies; and to provide for the establishment of a State administrative vehicle to overview and approve the financial planning and debt management of Alaskan municipal governments.

TEXT OF PROPOSED STATE OF ALASKA CONSTITUTIONAL AMENDMENT  
TO CREATE A PERMANENT FUND

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

SECTION 1. Article IX, Section 7, Constitution of the State of Alaska, is amended to read:

Dedicated funds. The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in Section 15 and except 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.

SECTION 2. Article IX, Section 15, Constitution of the State of Alaska, is amended by adding a new Section to read:

State of Alaska Permanent Development Fund. A  
minimum of 10% of all mineral lease rentals, royalties, cash bonuses  
and mineral severance taxes received by the State shall be placed in a  
State of Alaska Permanent Development Fund, the principal of which shall  
be used solely, directly or indirectly for projects relating to the  
industrial and economic development of the State. Such principal not  
invested in aforesaid projects shall be invested in accordance with  
Section . Transfers may be made from the Permanent Development Fund  
to the General Fund in an annual amount not to exceed such annual income of  
the Permanent Development Fund, net of all such annual income otherwise  
pledged. Such annual income not so transferred to the General Fund shall  
become part of the principal of the Permanent Development Fund. The  
legislature may appropriate additional amounts to the Permanent Development  
Fund which shall become part of the principal of the Fund.

SECTION 3. The amendments proposed by this resolution shall be placed before the voters at the next statewide election in conformity with Article XIII, Section 1, Constitution of the State of Alaska, and the election laws of the state.

STATE OF ALASKA  
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465-3800

September 15, 1977

MEMORANDUM

SUBJECT: Updated Revenue Impacts of Pump Station No. 8 Explosion.

TO: The Honorable Clark Gruening, Chairman  
House Permanent Fund Committee

The Honorable Russ Meekins

FROM: Richard G. Haggart *RGH*  
Research Analyst

This memorandum is in response to your request that we update our memorandum of July 15, 1977 discussing potential impacts on state revenues arising from the explosion at Pump Station No. 8. Since July 15 two major changes have occurred in the underlying assumptions used to calculate the revenue impacts contained in that memorandum:

1. The length of the delay in getting Pump Station No. 8 back on line is now known with greater precision. According to both industry and government officials with whom we have spoken, it now seems most likely that Pump Station No. 8 will go back into service about March 1, 1978, and that as a result, fiscal 1978 average daily production from the North Slope will be about 720,000 bbl/d - down from the pre-explosion estimate of 940,000 bbl/d.
2. Wellhead values for Prudhoe Bay oil, which had to be estimated in July, are now available for the months of June and July. For a variety of reasons which will be discussed below, these actual values are significantly lower than those previously estimated.

Pump Station No. 8 Impacts

Assuming that Pump Station No. 8 is back on line by March 1, the total delay entailed in terms of Prudhoe Bay production will have totaled approximately 8 months. As a result, Prudhoe Bay production for fiscal 1978 will be approximately 23% lower than it would have been if Pump Station No. 8 were to have been in operation. While further delays are clearly possible, we found no indications in our conversations with either industry or state officials that Alyeska's March 1, 1978 start-up estimate for Pump Station No. 8 is unreasonable.

Prudhoe Bay Wellhead Values

Prior to the start-up of actual production at Prudhoe Bay, most revenue forecasts assumed wellhead values in the \$7.25 to \$8.00 per barrel range, for purposes of calculating state royalty and severance tax revenues. Based on company returns filed for the months of June and July (the only returns available at this writing), wellhead values will be significantly lower than those previously forecast.

There are three primary reasons for these differences between actual and estimated wellhead values:

1. The companies are claiming field gathering and treatment costs as deductible against the state's royalty payments.
2. Tanker charges to all markets are higher than previously estimated.
3. Sales prices in all markets are lower than previously forecast.

All of these issues are currently in litigation. On September 2, 1977, the state filed Civil Action No. 77-847 against 18 North Slope companies and lease-holders requesting relief in regard to the matters outlined above. According to the Attorney General's office the state has a "good" case, although many of the issues are "close". Regardless of the eventual outcome of the suit, however, it seems likely that the state cannot avoid suffering at least the short-term revenue losses outlined above - even if the revenues are recouped, by court order, in later years. The specific areas effecting the state's wellhead values are discussed in more detail below.

Table I contains the wellhead values which were asserted by the three largest North Slope producers in June and July.

As can be seen from Table I, there are in essence two wellhead values. The value under the first column (LACT meter value per-barrel value) is the basis on which state severance taxes are calculated. The amount in the third column (net value per-barrel) is used by the producers as the basis for computing state royalties. The difference between the two values is contained in the second column of Table I - representing so-called field gathering and treatment costs.

The question of which of the two values to use for calculating state royalties (the recently enacted severance tax clearly sets forth the point of taxation at the LACT meter, and consequently that issue is not in dispute) essentially centers around the definition of the phrase "at the well" as used in both the state royalty statute and in the Prudhoe Bay leases. The companies contend that gathering and treatment costs which occur after the oil physically emerges from the ground should be deducted before calculating the royalty value, while the state contends

that such costs should be borne by the companies and that royalties should be based on the value of oil in "good and merchantable" condition.

Table II contains the tanker charges claimed by the companies for the month of June, 1977, as compared to previous estimates of the level of such charges. As can be seen from Table II, in all cases these charges are significantly in excess of those forecast previously, and according to Department of Revenue officials, are well above "reasonable" levels. Obviously, the level of tanker charges affects both state royalties and severance taxes.

Table III contains imputed West Coast sales prices for North Slope crude oil for the month of June, again, as compared to previously estimated levels. These values are calculated by adding the Trans-Alaska Pipeline tariff and the tanker charges onto the LACT meter wellhead values contained in Table I - a sort of reverse "net-back" process. As with the tanker charges, the sales prices for North Slope crude are lower than those previously forecast, and affect both royalties and severance taxes.

The net effect of these lower-than-expected wellhead values and of the pipeline explosion on state revenues and Permanent Fund contributions in fiscal 1978 are set forward in Table IV.

It should be noted that the figures contained in Tables I-IV are preliminary in the sense that only two months of production data from the Prudhoe Bay field are currently available. Data for August should be available approximately the first week in October, and monthly thereafter. As can be seen from Table I, shifts in wellhead values occurred between the months of June and July - Exxon's wellhead value declined marginally, while Sohio's increased significantly. Such shifts are likely to continue, as different mixes of tankers and destinations for Alaska oil occur in the months ahead. Likewise, some price fluctuations in lower-48 markets can be expected as the North Slope companies seek to market increasing volumes of crude oil at varying prices and discounts.

In sum, we expect that it will be necessary to revise and update the fiscal 1978 revenue forecast each month, at least until such time as overall cost and price patterns for North Slope crude oil stabilize to a greater degree than is presently the case. We do believe, however, that such changes will tend to be smaller than those which have already occurred. This is because the largest effect on fiscal 1978 revenues arises from the Pump Station No. 8 explosion. In addition, the variations in wellhead value that can reasonably be expected to occur for the remainder of the year are likely to be substantially smaller than was the difference between the estimated price in July, and the actual prices which have been posted.

DH:dh

Table I  
Prudhoe Bay Wellhead Values and Field Costs for Three Companies  
June - July 1977

<u>Company and Month</u>	<u>Value at LACT* Meter<sup>1</sup></u>	<u>Field Costs</u>	<u>Net Value Per Barrel<sup>2</sup></u>
ARCO			
June	\$7.55	\$0.636	\$6.914
July	\$7.55	\$0.636	\$6.914
Exxon			
June	\$6.954	\$0.528	\$6.426
July	\$6.954	\$0.528	\$6.411
Sohio			
June	\$6.24	\$0.66	\$5.52
July	\$6.65	\$0.66	\$5.93

\* Lease Automatic Custody Transfer; i.e., the measuring device used as a transfer point for the oil from the unit operators to the Alyeska Pipeline Company.

<sup>1</sup> This value is used for calculating state severance taxes.

<sup>2</sup> This value is used for calculating state royalty payments.

Prepared by:  
Legislative Affairs Agency  
Research Division  
15 September 1977

Table II  
 Actual vs. Estimated North Slope Oil Tanker Charges  
 for Three Companies  
 June 1977

<u>Company</u>	<u>(\$/bb1) June Charges</u> <sup>1</sup>	<u>(\$/bb1) Estimated Charges</u> <sup>2</sup>
ARCO	\$0.88	\$0.60
Exxon	\$1.10	\$0.75
Sohio		
West Coast	\$0.89	\$0.75
Gulf Coast	\$3.47	\$2.00

<sup>1</sup> It should be noted that tanker charges for June are likely to be higher in most cases than they will be in subsequent months. This is due to the fact that some companies are engaged in short-term chartering as the oil flow builds--a process which is likely to be more expensive than utilizing either long-term charters or the company's own tanker capacity.

<sup>2</sup> Based on Department of Revenue, Legislative Affairs Agency Research Division and miscellaneous private sector estimates.

Prepared by:  
 Legislative Affairs Agency  
 Research Division  
 15 September 1977

Table III  
 Imputed and Estimated Sales Price for North Slope Crude  
 by Three Companies  
 June 1977

<u>Company</u>	<u>Imputed Sales Price</u> <sup>1</sup>	<u>Estimated Sales Price</u> <sup>2</sup>
ARCO	\$13.34	\$13.50-14.00
Exxon	\$13.15	\$13.25-13.75
Sohio <sup>3</sup>	\$13.05	\$13.25-13.75

1 Calculated by adding the LACT meter value contained in Table I, the tanker charges contained in Table II, and the Interstate Commerce Commission's interim Trans-Alaska Pipeline tariffs.

2 Based on estimated tanker charges contained in Table II and representative West Coast prices of imported crudes of similar quality to Prudhoe Bay.

3 Sohio's imputed sales price represents a weighted average received for crude oil sold on the West Coast and the Gulf Coast. Sohio's weighted average tanker charges for both destinations (not included in Table II) was \$2.11 per barrel.

Prepared by:  
 Legislative Affairs Agency  
 Research Division  
 15 September 1977

TABLE IV

Revenue and Permanent Fund Impacts of TAPS Thru-Put Delays and Revised Wellhead Values  
Fiscal 1978 (\$Million)

<u>Production or Wellhead Value Assumptions</u>	<u>Total Revenue<sup>1</sup></u>	<u>Expenditures<sup>2</sup></u>	<u>Permanent Fund Contribution<sup>3</sup></u>	<u>Permanent Fund Balance<sup>4</sup></u>	<u>General Fund Balance<sup>5</sup></u>
Based on memo of 7/15/77 (940,000 bbl/d)	\$978.5	\$853.8	\$87.2	\$89.6	\$690.2
Pump Station Restart 3/1/78, Revised Wellhead Values (720,000 bbl/d)	\$822.7	\$853.8	\$60.0	\$62.4	\$593.6
Pump Station Restart 3/1/78, Revised Wellhead Values and Modified Tariff <sup>6</sup> (720,000 bbl/d)	\$813.9	\$853.8	\$58.4	\$60.8	\$587.2

<sup>1</sup> Basic revenue data taken from memorandum of July 15, 1977, and adjusted to reflect differing throughput and wellhead values.

<sup>2</sup> Expenditures taken from July 15, 1977 memorandum.

<sup>3</sup> Permanent Fund contribution level is set at 25% of state royalties from Prudhoe Bay and Cook Inlet oil and gas production.

<sup>4</sup> Permanent Fund balance includes previous year's carry-forward.

<sup>5</sup> General Fund balance includes previous year's carry-forward and reflects any deficit in the year. Also deducted are payments to the Native Claims Fund equal to 2% of the gross value of royalties, leases and bonuses.

<sup>6</sup> Tariff effects due to Pump Station No. 8 explosion have been estimated to be approximately \$0.19 per barrel. North Slope companies have not filed for any such revision however.

Prepared by:  
Legislative Affairs Agency  
Research Division  
15 September 1977

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-455-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

July 7, 1977

SUBJECT: Permanent Fund and Revenue Forecasts

TO: Hon. Clark Gruening, Chairman, House Permanent Fund Committee

FROM: Richard G. Haggart *RGH*  
Research Analyst

Enclosed are five (5) copies of our analysis of the State of Alaska's revenue outlook, and associated effects on the Permanent Fund. As you requested, the analysis is divided into three "cases": Case I which postulates low petroleum income coupled with high state expenditure levels, Case II which postulates moderate or "concensus" levels of petroleum income and expenditures, and Case III, which postulates relatively high petroleum income and relatively low state expenditure levels.

Each of the three Cases has four separate sheets -- one each for Permanent Fund contribution levels of 25%, 50%, 75% and 100% respectively. Because the computer print-outs and the Case titles are somewhat unobtrusive you should caution anyone reproducing the material to be sure they are assembled in the proper order, to avoid any potential confusion.

Obviously, a number of assumptions went into the three case studies. These assumptions are contained in a supplemental memorandum which is now being prepared and which will be forwarded to you as soon as it is complete. Because of the complex nature of these forecasts, as well as the numerous assumptions that went into them, we believe it would be very desirable to include the supplemental material when the forecasts are distributed, at least as appendices. The objective here would be to allow those who are interested to reconstruct our work and satisfy any curiosity that might exist regarding methodology.

If you have any further questions let us know. In the meantime, Gregg, John and I look forward to seeing you and the Committee in Anchorage on the 15th.

RGH:dh  
Enclosures

STATE FINANCIAL AND OPERATING DATA 1978-1985  
 (FIGURES IN \$MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$453.1	\$50.8	\$168.3	\$44.5	\$225.8	\$942.6	\$853.2	\$31.0	\$83.4	\$726.0
1979	\$522.8	\$47.4	\$170.6	\$50.4	\$260.2	\$1,051.4	\$939.2	\$90.3	\$173.8	\$747.9
1980	\$618.7	\$44.5	\$193.2	\$59.0	\$302.4	\$1,217.9	\$1,033.1	\$96.1	\$269.9	\$836.7
1981	\$741.0	\$41.9	\$226.7	\$72.2	\$322.0	\$1,403.9	\$1,136.4	\$100.6	\$370.6	\$1,003.6
1982	\$803.2	\$39.2	\$251.8	\$87.2	\$315.2	\$1,496.7	\$1,250.1	\$107.7	\$478.3	\$1,142.5
1983	\$839.3	\$43.9	\$257.0	\$99.9	\$324.5	\$1,564.7	\$1,375.1	\$116.7	\$595.1	\$1,215.4
1984	\$894.2	\$46.6	\$261.4	\$109.8	\$349.4	\$1,661.5	\$1,512.6	\$122.5	\$717.6	\$1,241.8
1985	\$918.3	\$44.8	\$295.9	\$116.8	\$379.3	\$1,755.2	\$1,663.8	\$127.7	\$845.3	\$1,205.6
TOTAL	\$5,791.0	\$359.5	\$1,824.9	\$640.1	\$2,478.8	\$11,094.4	\$9,764.1	NOT APPL.	\$845.3	\$1,205.6

CASE I: Low Income-High Expenditure Model  
 (See Notes for Explanation of Assumptions)

prepared by:  
 legislative affairs agency  
 research division  
 july 6, 1977

*Div. by .25*  
*M.H. by .05*

STATE FINANCIAL AND OPERATING DATA FOR FISCAL YEARS 1978-1985  
 (FIGURES IN MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$453.1	\$50.8	\$168.3	\$44.5	\$225.8	\$942.6	\$853.8	\$162.1	\$164.5	\$644.9
1979	\$522.8	\$47.4	\$170.6	\$50.4	\$260.2	\$1,051.4	\$939.2	\$190.6	\$345.2	\$576.5
1980	\$618.7	\$44.5	\$193.2	\$59.0	\$302.4	\$1,217.9	\$1,033.1	\$192.2	\$537.5	\$569.1
1981	\$741.0	\$41.9	\$226.7	\$72.2	\$322.0	\$1,403.9	\$1,136.4	\$201.3	\$738.8	\$635.4
1982	\$803.2	\$39.2	\$251.8	\$87.2	\$315.2	\$1,496.7	\$1,250.1	\$215.5	\$954.3	\$666.6
1983	\$839.3	\$43.9	\$257.0	\$99.9	\$324.5	\$1,564.7	\$1,375.1	\$233.4	\$1,187.8	\$622.7
1984	\$894.2	\$46.6	\$261.4	\$109.8	\$349.4	\$1,661.5	\$1,512.6	\$245.1	\$1,432.9	\$526.5
1985	\$918.3	\$44.8	\$295.9	\$116.8	\$379.3	\$1,755.2	\$1,663.8	\$255.4	\$1,688.3	\$362.6
TOTAL	\$5,791.0	\$359.5	\$1,824.9	\$640.1	\$2,478.8	\$11,094.4	\$9,764.1	NOT APPL.	\$1,688.3	\$362.6

CASE I: Low Income-High Expenditure Model  
 (See Notes for Explanation of Assumptions)

prepared by:  
 legislative affairs agency  
 research division  
 july 6, 1977

STATE FINANCIAL AND OPERATING BUDGET SYSTEM  
 (FIGURES IN \$MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$453.1	\$50.8	\$163.3	\$44.5	\$225.8	\$942.6	\$853.8	\$243.2	\$245.6	\$563.9
1979	\$522.3	\$47.4	\$170.6	\$50.4	\$260.2	\$1,051.4	\$939.2	\$271.0	\$516.6	\$405.1
1980	\$618.7	\$44.5	\$193.2	\$59.0	\$302.4	\$1,217.9	\$1,033.1	\$283.4	\$805.0	\$301.6
1981	\$741.0	\$41.9	\$226.7	\$72.2	\$322.0	\$1,403.9	\$1,136.4	\$301.9	\$1,107.0	\$267.2
1982	\$803.2	\$39.2	\$251.8	\$87.2	\$315.2	\$1,496.7	\$1,250.1	\$323.2	\$1,430.2	\$190.6
1983	\$839.3	\$43.9	\$257.0	\$102.3	\$224.5	\$1,567.1	\$1,307.5	\$350.2	\$1,730.5	\$100.0
1984	\$894.2	\$46.6	\$261.4	\$123.8	\$349.4	\$1,675.5	\$1,307.8	\$367.6	\$2,148.1	\$100.0
1985	\$918.3	\$44.8	\$295.9	\$146.3	\$379.3	\$1,784.8	\$1,401.6	\$383.1	\$2,531.3	\$100.0
TOTAL	\$5,791.0	\$359.5	\$1,824.9	\$626.1	\$2,478.8	\$11,140.4	\$9,229.7	NOT APPL.	\$2,531.3	\$100.0

CASE I: Low Income-High Expenditure Model  
 (See Notes for Explanation of Assumptions)

prepared by:

legislative affairs agency  
 research division  
 july 6, 1977

STATE FINANCIAL AND OPERATING DATA  
(FIGURES IN \$ MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$453.1	\$50.8	\$168.3	\$44.5	\$225.8	\$942.6	\$853.8	\$324.3	\$326.7	\$422.2
1979	\$522.8	\$47.4	\$170.6	\$50.4	\$260.2	\$1,051.4	\$939.2	\$361.3	\$688.0	\$233.7
1980	\$618.7	\$44.5	\$193.2	\$58.8	\$302.4	\$1,217.7	\$966.9	\$384.5	\$1,072.6	\$100.0
1981	\$741.0	\$41.9	\$226.7	\$82.4	\$322.0	\$1,414.1	\$1,011.5	\$402.6	\$1,475.2	\$100.0
1982	\$803.2	\$59.2	\$251.8	\$107.4	\$315.2	\$1,516.9	\$1,085.9	\$431.0	\$1,906.2	\$100.0
1983	\$839.3	\$43.9	\$257.0	\$134.3	\$324.5	\$1,599.1	\$1,132.2	\$466.9	\$2,373.2	\$100.0
1984	\$894.2	\$46.6	\$261.4	\$163.1	\$349.4	\$1,714.8	\$1,224.5	\$490.2	\$2,863.4	\$100.0
1985	\$918.3	\$44.8	\$295.9	\$193.1	\$379.3	\$1,831.6	\$1,320.6	\$510.9	\$3,374.3	\$100.0
TOTAL	\$5,791.0	\$359.5	\$1,824.9	\$834.3	\$2,478.8	\$11,288.5	\$8,534.9	NOT APPL.	\$3,374.3	\$100.0

CASE I: Low Income-High Expenditure Model  
(See Notes for Explanation of Assumptions)

prepared by:

legislative affairs agency  
research division  
july 6, 1977

STATE FINANCIAL AND OPERATING BUDGET, 1978-1985 ESTIMATIONS  
(FIGURES IN \$ MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$482.8	\$50.8	\$168.3	\$45.4	\$225.8	\$973.2	\$853.8	\$86.3	\$83.7	\$751.3
1979	\$678.0	\$47.4	\$170.6	\$57.5	\$260.2	\$1,213.8	\$917.8	\$119.8	\$208.6	\$927.5
1980	\$917.1	\$44.5	\$193.2	\$82.2	\$302.4	\$1,539.5	\$986.6	\$140.4	\$349.1	\$1,340.0
1981	\$1,107.0	\$41.9	\$226.7	\$120.4	\$322.0	\$1,818.2	\$1,060.6	\$153.2	\$502.3	\$1,944.4
1982	\$1,205.6	\$39.2	\$251.8	\$166.9	\$315.2	\$1,978.8	\$1,140.2	\$166.4	\$668.7	\$2,616.6
1983	\$1,348.3	\$43.9	\$257.0	\$219.5	\$324.5	\$2,193.4	\$1,225.7	\$186.7	\$855.5	\$3,397.6
1984	\$1,421.0	\$46.6	\$261.4	\$278.0	\$349.4	\$2,356.4	\$1,317.6	\$197.1	\$1,052.6	\$4,239.3
1985	\$1,535.6	\$44.8	\$295.9	\$342.6	\$379.3	\$2,598.3	\$1,416.4	\$212.6	\$1,265.3	\$5,208.6
TOTAL	\$8,695.7	\$359.5	\$1,824.9	\$1,313.0	\$2,478.8	\$14,671.9	\$8,918.7	NOT APPL.	\$1,265.3	\$5,208.6

CASE II: Medium Income-Medium Expenditure Model  
(See Notes for Explanation of Assumptions)

prepared by:

legislative affairs agency  
research division  
july 6, 1977

STATE FINANCIAL AND OPERATING OUTLOOK, 1978-1985 @ 50% PERM. FUND  
 (FIGURES IN \$MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$482.8	\$50.8	\$168.3	\$45.4	\$225.8	\$973.2	\$853.8	\$172.7	\$175.1	\$664.9
1979	\$678.0	\$47.4	\$170.6	\$57.5	\$260.2	\$1,213.8	\$917.8	\$239.7	\$414.9	\$721.2
1980	\$917.1	\$44.5	\$193.2	\$82.2	\$302.4	\$1,539.5	\$986.6	\$280.9	\$655.2	\$993.2
1981	\$1,107.0	\$41.9	\$226.7	\$120.4	\$322.0	\$1,818.2	\$1,060.6	\$306.4	\$1,002.3	\$1,444.4
1982	\$1,205.6	\$39.2	\$251.3	\$166.9	\$315.2	\$1,978.8	\$1,140.2	\$332.8	\$1,335.1	\$1,950.2
1983	\$1,348.3	\$43.9	\$257.0	\$219.5	\$324.5	\$2,193.4	\$1,225.7	\$373.4	\$1,708.6	\$2,544.5
1984	\$1,421.0	\$46.6	\$261.4	\$278.0	\$349.4	\$2,356.4	\$1,317.6	\$394.2	\$2,102.8	\$3,193.1
1985	\$1,535.6	\$44.8	\$295.9	\$342.6	\$379.3	\$2,598.3	\$1,416.4	\$425.3	\$2,528.2	\$3,945.7
TOTAL	\$8,695.7	\$359.5	\$1,824.9	\$1,313.0	\$2,478.8	\$14,671.9	\$8,918.7	NOT APPL.	\$2,528.2	\$3,945.7

CASE II: Medium Income-Medium Expenditure Model  
 (See Notes for Explanation of Assumptions)

prepared by:

legislative affairs agency  
 research division  
 july 6, 1977

50%  
 .05 X

**STATE FINANCIAL AND OPERATING OUTLOOK, 1978-1985 @ 75% PERM. FUND**  
**(FIGURES IN \$MILLIONS)**

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$482.8	\$50.8	\$168.3	\$45.4	\$225.8	\$973.2	\$853.8	\$259.1	\$261.5	\$578.6
1979	\$678.0	\$47.4	\$170.6	\$57.5	\$260.2	\$1,213.8	\$917.8	\$359.6	\$621.1	\$515.0
1980	\$917.1	\$44.5	\$193.2	\$82.2	\$302.4	\$1,539.5	\$986.6	\$421.4	\$1,042.6	\$646.5
1981	\$1,107.0	\$41.9	\$226.7	\$120.4	\$322.0	\$1,818.2	\$1,060.6	\$459.6	\$1,502.2	\$944.5
1982	\$1,205.6	\$39.2	\$251.8	\$166.9	\$315.2	\$1,978.8	\$1,140.2	\$499.3	\$2,001.5	\$1,283.8
1983	\$1,348.3	\$43.9	\$257.0	\$219.5	\$324.5	\$2,193.4	\$1,225.7	\$560.1	\$2,561.7	\$1,691.3
1984	\$1,421.0	\$46.6	\$261.4	\$278.0	\$349.4	\$2,356.4	\$1,317.6	\$591.3	\$3,153.1	\$2,133.8
1985	\$1,535.6	\$44.8	\$295.9	\$342.6	\$379.1	\$2,598.3	\$1,416.4	\$633.0	\$3,791.2	\$2,682.7
TOTAL	\$8,695.7	\$359.5	\$1,824.9	\$1,313.0	\$2,478.8	\$14,671.9	\$8,918.7	NOT APPL.	\$3,791.2	\$2,682.7

CASE II: Medium Income-Medium Expenditure Model  
 (See Notes for Explanation of Assumptions)

prepared by:

legislative affairs agency  
 research division  
 July 6, 1977

STATE FINANCIAL AND OPERATING BUDGETS  
(FIGURES IN \$ MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$482.8	\$50.8	\$168.3	\$45.4	\$225.8	\$973.2	\$853.8	\$345.4	\$347.8	\$492.2
1979	\$678.0	\$47.4	\$170.6	\$57.5	\$260.2	\$1,213.8	\$917.8	\$479.5	\$827.4	\$308.7
1980	\$917.1	\$44.5	\$193.2	\$82.2	\$302.4	\$1,539.5	\$986.6	\$561.9	\$1,339.3	\$299.2
1981	\$1,107.0	\$41.9	\$226.7	\$120.4	\$322.0	\$1,818.2	\$1,060.6	\$612.8	\$2,002.2	\$444.5
1982	\$1,205.6	\$39.2	\$251.8	\$166.9	\$315.2	\$1,978.8	\$1,140.2	\$665.7	\$2,667.9	\$617.4
1983	\$1,348.3	\$43.9	\$257.0	\$219.5	\$324.5	\$2,193.4	\$1,225.7	\$746.8	\$3,414.8	\$838.2
1984	\$1,421.0	\$46.6	\$261.4	\$278.0	\$349.4	\$2,356.4	\$1,317.6	\$788.4	\$4,203.3	\$1,033.6
1985	\$1,535.6	\$44.8	\$295.9	\$342.6	\$379.3	\$2,598.3	\$1,416.4	\$850.7	\$5,054.1	\$1,419.8
TOTAL	\$8,695.7	\$359.5	\$1,824.9	\$1,313.0	\$2,478.8	\$14,671.9	\$8,918.7	NOT APPL.	\$5,054.1	\$1,419.8

CASE II: Medium Income-Medium Expenditure Model  
(See Notes for Explanation of Assumptions)

prepared by:

legislative affairs agency  
research division  
july 6, 1977

**STATE FINANCIAL AND OPERATING OUTLOOK, 1978-1985 @ 25% PERM. FUND**  
**(FIGURES IN \$MILLIONS)**

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$523.2	\$50.8	\$168.3	\$46.6	\$225.8	\$1,014.8	\$853.8	\$93.5	\$95.9	\$785.7
1979	\$769.5	\$47.4	\$170.6	\$61.7	\$260.2	\$1,309.4	\$954.1	\$136.1	\$232.1	\$1,004.9
1980	\$1,172.6	\$44.5	\$193.2	\$95.2	\$302.4	\$1,808.0	\$1,012.5	\$173.2	\$405.4	\$1,627.2
1981	\$1,355.6	\$41.9	\$226.7	\$147.6	\$322.0	\$2,094.0	\$1,091.2	\$187.3	\$592.3	\$2,442.6
1982	\$1,542.0	\$39.2	\$251.8	\$211.6	\$315.2	\$2,359.9	\$1,163.7	\$212.4	\$805.3	\$3,426.3
1983	\$1,892.6	\$43.9	\$257.0	\$296.0	\$324.5	\$2,804.1	\$1,103.7	\$260.0	\$1,065.3	\$4,266.7
1984	\$2,149.3	\$46.6	\$261.4	\$406.3	\$349.4	\$3,213.1	\$1,126.4	\$297.0	\$1,362.4	\$5,656.4
1985	\$2,325.9	\$44.8	\$295.9	\$536.7	\$379.3	\$3,582.8	\$1,191.4	\$320.9	\$1,683.3	\$8,726.9
TOTAL	\$11,721.1	\$359.5	\$1,824.9	\$1,802.0	\$2,478.8	\$18,186.4	\$8,496.8	NOT APPL.	\$1,683.3	\$2,726.9

CASE III: High Income-Low Expenditure Model  
(See Notes for Explanation of Assumptions)

Prepared by:

Legislative Affairs Agency  
Research Division  
July 6, 1977

STATE FINANCIAL AND OPERATING OUTLOOK, 1978-1985 & BOX PERM. FUND  
(FIGURES IN \$MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$523.2	\$50.8	\$168.3	\$46.6	\$225.8	\$1,014.8	\$853.8	\$187.1	\$189.5	\$692.2
1979	\$769.5	\$47.4	\$170.6	\$61.7	\$260.2	\$1,309.4	\$954.1	\$272.3	\$461.9	\$775.2
1980	\$1,172.6	\$44.5	\$193.2	\$95.2	\$302.4	\$1,808.0	\$1,012.5	\$346.4	\$808.4	\$1,224.2
1981	\$1,355.6	\$41.9	\$226.7	\$147.6	\$322.0	\$2,094.0	\$1,091.2	\$374.7	\$1,123.2	\$1,252.2
1982	\$1,542.0	\$39.2	\$251.8	\$211.6	\$315.2	\$2,359.9	\$1,163.7	\$424.9	\$1,608.2	\$2,622.4
1983	\$1,982.6	\$43.9	\$257.0	\$296.0	\$324.5	\$2,804.1	\$1,103.7	\$520.0	\$2,123.3	\$3,203.3
1984	\$2,149.3	\$46.6	\$261.4	\$406.3	\$349.4	\$3,213.1	\$1,126.4	\$594.1	\$2,722.4	\$5,256.4
1985	\$2,325.9	\$44.8	\$295.9	\$536.7	\$379.3	\$3,582.8	\$1,191.4	\$641.9	\$3,364.3	\$7,045.9
TOTAL	\$11,721.1	\$359.5	\$1,824.9	\$1,802.0	\$2,478.2	\$18,186.4	\$8,496.8	NOT APPL.	\$3,364.3	\$7,045.9

CASE III: High Income-Low Expenditure Model  
(See Notes for Explanation of Assumptions)

prepared by:  
legislative affairs agency  
research division  
july 6, 1977

STATE FINANCIAL AND OPERATING BUDGETS  
 (FIGURES IN \$MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$523.2	\$50.8	\$168.3	\$46.6	\$225.8	\$1,014.8	\$853.8	\$280.7	\$283.1	\$598.6
1979	\$769.5	\$47.4	\$170.6	\$61.7	\$260.2	\$1,309.4	\$954.1	\$408.5	\$691.7	\$545.4
1980	\$1,172.6	\$44.5	\$193.2	\$95.2	\$302.4	\$1,808.0	\$1,012.5	\$519.7	\$1,211.4	\$221.2
1981	\$1,355.6	\$41.9	\$226.7	\$147.6	\$322.0	\$2,094.0	\$1,091.2	\$562.1	\$1,773.6	\$1,251.8
1982	\$1,542.0	\$39.2	\$251.8	\$211.6	\$315.2	\$2,359.9	\$1,163.7	\$637.4	\$2,411.1	\$1,220.5
1983	\$1,392.6	\$43.9	\$257.0	\$296.0	\$324.5	\$2,804.1	\$1,103.7	\$780.1	\$3,191.2	\$2,740.8
1984	\$2,149.3	\$46.6	\$261.4	\$406.3	\$349.4	\$3,213.1	\$1,126.4	\$891.2	\$4,092.4	\$3,936.3
1985	\$2,325.9	\$44.8	\$295.9	\$536.7	\$379.3	\$3,582.8	\$1,191.4	\$962.8	\$5,045.3	\$5,364.9
TOTAL	\$11,721.1	\$359.5	\$1,824.9	\$1,802.0	\$2,478.8	\$18,186.4	\$8,496.8	NOT APPL.	\$5,045.3	\$5,364.9

CASE III: High Income-Low Expenditure Model  
 (See Notes for Explanation of Assumptions)

prepared by:  
 legislative affairs agency  
 research division  
 July 6, 1977

STATE FINANCIAL AND OPERATING OUTLOOK, 1978-1985 - 100% PERM. FUND  
(FIGURES IN \$MILLIONS)

F/Y	NORTH SLOPE REVENUE	OTHER PETROLEUM REVENUE	OIL AND GAS PROPERTY TAX	INTEREST INCOME	OTHER INCOME	TOTAL REVENUE	EXPENDITURES	PERMANENT FUND CONTRIBUTION	PERMANENT FUND BALANCE	GENERAL FUND BALANCE
1978	\$523.2	\$50.8	\$168.3	\$46.6	\$225.8	\$1,014.8	\$853.8	\$374.3	\$376.7	\$505.0
1979	\$769.5	\$47.4	\$170.6	\$61.7	\$260.2	\$1,309.4	\$954.1	\$544.7	\$921.4	\$315.6
1980	\$1,172.6	\$44.5	\$193.2	\$95.2	\$302.4	\$1,808.0	\$1,012.5	\$692.9	\$1,614.4	\$418.1
1981	\$1,355.6	\$41.9	\$226.7	\$147.6	\$322.0	\$2,094.0	\$1,091.2	\$749.5	\$2,364.0	\$671.4
1982	\$1,542.0	\$39.2	\$251.8	\$211.6	\$315.2	\$2,359.9	\$1,163.7	\$849.9	\$3,214.0	\$1,017.6
1983	\$1,882.6	\$43.9	\$257.0	\$296.0	\$324.5	\$2,804.1	\$1,103.7	\$1,040.1	\$4,254.2	\$1,677.9
1984	\$2,149.3	\$46.6	\$261.4	\$406.3	\$349.4	\$3,213.1	\$1,126.4	\$1,188.3	\$5,442.5	\$2,576.3
1985	\$2,325.9	\$44.8	\$295.9	\$536.7	\$379.3	\$3,582.8	\$1,191.4	\$1,283.8	\$6,726.3	\$3,633.9
TOTAL	\$11,721.1	\$359.5	\$1,824.9	\$1,802.0	\$2,478.8	\$18,186.4	\$8,496.8	NOT APPL.	\$6,726.3	\$3,633.9

CASE III: High Income-Low Expenditure Model  
(See Notes for Explanation of Assumptions)

prepared by:

legislative affairs agency  
research division  
july 6, 1977

# Alaska Pacific Bank

Working Paper #1

August 25, 1976

## STATE OF ALASKA PERMANENT FUND INVESTMENT OBJECTIVE OPTIONS

In accordance with the directive given to us, this first working paper focuses on identifying all of the possible investment objective options for the proposed permanent fund.

Our effort emphasized comprehensiveness and completeness. It was not our purpose at this point to engage in any analysis of the options. Nevertheless, in the accompanying list some preliminary, somewhat superficial analytical observations are made.

The options appear to fall into three general categories: those with a social orientation, those with an economic orientation, and those with a fiscal management orientation.

### Social Orientation

#### I. Income Redistribution

The principle objective of the fund would be to serve as a vehicle for redistributing income from

high income earners to low income earners. This would imply a strategy of placing investments in the safest securities, with the income from these investments going to low income families on the basis of some sort of formula perhaps similar to those developed for the proposed Federal Negative Income Tax. Obviously, considerable actuarial work would be required to insure that the program were operated so it would not have to be supplemented by the general operating budget.

#### II. Subsidization of Lower Income Families

Here the fund would be utilized to guaranty or purchase loans up to certain amounts and for certain purposes. The program would be structured so as to provide financing to families who otherwise would have a difficult time obtaining funds. An example would be expansion of the State's home mortgage program.

#### III. Geographic Redistribution of Wealth

Under this objective the fund would invest principally in rural development programs, making capital available

for both public and private projects that otherwise would not be able to attract such capital. This objective tends to fly in the face of an important concept which should be kept in mind: just because financing is available for a particular project not necessarily make the project sensible from a long-run operational viability standpoint.

IV. Support of a Specific Designated Social Objective: e.g.,  
Endowment to Finance the University of Alaska

This strategy, similar to the one pursued in Texas (Permanent University Fund), represents a rather dramatic commitment of state funds. It would seem that such a commitment would have to have some degree of flexibility, as it runs the risk of not coinciding with future social priorities.

V. Directly Increase the Quality of Life of All Alaskans  
Through Various Subsidies

The structure of this program would be identical to that under II, except that the lower interest loans would be available all Alaskans regardless of income or their financial criteria. Naturally, such a program would run the risk of some rather dramatic disparities, such as an extremely wealthy individual receiving a state subsidized loan.

VI. Provide a vehicle to allow all Alaskans to participate more directly in the economic development of the state through an ownership position.

This would involve creating a private corporation, the stock of which would be given to Alaska citizens on the basis of some sort of criteria and formula. The corporation (e.g., Alaska, Inc.) would receive the revenues designated for the permanent fund and would have the power to declare dividends on the basis of its earnings.

The legality of such a vehicle is certainly opened to question. Further, establishing such a program would be an extremely complex matter. Such a vehicle might be implemented as a "general stock ownership plan" similar to an "employee stock ownership plan" recently authorized by Congress. In addition to the legal questionability and mechanical complexity, there are some major philosophical questions which such a program brings forth.

#### Economic Orientation

VIII. Subsidize small businesses through expansion of existing loan programs (Small Business Revolving Loan Fund, Commercial Fishing Loan Fund, and Tourism Revolving Loan Fund) and the development of new similar loan programs.

This program would likely take the form of loan guarantees or purchases to bring about lower interest rates.

Important note: subsidies only make economic sense if the activity directly and indirectly induced by the subsidy generates in the long-run revenue to the state government which exceeds the cost of the subsidy, thereby bringing about a net benefit to the state.

VIII. Vehicle to bolster, beef up, and make viable Alaska's traditional industries, particularly fishing and forest products.

Such a strategy would imply a variety of programs including loan guarantees and purchases, bond purchases, (e.g. "Industrial Bond Bank"), and direct ownership of major projects which effect substantially the viability of these industries (e.g., Quebec Industrial Development Assistance Act).

These programs should be pursued only if they sufficiently alter the very structure of these industries so as to create truly viable enterprises which in the long-run will generate tax and other revenues which more than offset the costs of these programs to the State.

IX. Vehicle to create a more stable and broadly based economy.

Under such an objective the highest priority would be placed on the financing (either debt or equity) of major projects which substantially alter the very structure of Alaska's economy.

Examples might include hydroelectric facilities, petrochemical plants, agricultural projects, hardrock mining ventures, etc.

The organizational structure and modus operandi might be similar to organizations such as The World Bank, the Asian Development Bank, and the Development Bank of Puerto Rico.

#### Fiscal Management Orientation

- X. Vehicle to provide cushion for possible future revenue down turns.

Under this program the fund would be invested relatively conservatively. Earnings would be re-invested separately in the safest securities, and the accumulation of such earnings would be available to fill any gap resulting from a momentary short-run decrease in revenue to the State of Alaska as a result of cyclical or other temporary factors.

- XI. Reduction in the state debt and/or the tax burden on Alaska's taxpayers.

Under this objective the fund would be utilized to buy back State of Alaska bonds, reducing the state's outstanding debt and thereby (1) lowering the interest payments of the State, and (2) improving the State's bond rating which in turn would lower the interest rate on future bond issues.

Further, under such a strategy earnings of the fund would be utilized to help pay for the State's operating expenses or for the distribution to local government for support of current operations.

#### General Comments

Upon considerable reflection on this matter, we feel that a subtle yet extremely important distinction must be kept in mind. The very name of this instrument which the Alaska voters will approve or disapprove -- permanent fund -- implies that notion of sustainability and perpetuity. Therefore, it seems to us that management of the fund in accordance with the intent of the Legislature and the Alaska voters would imply a long-range rather than a short-range orientation.

In this regard, it is important to acknowledge that often pursuit of short-run social objectives such as redistribution of wealth often is counter-productive to the extent that it can undermine the very factors that are necessary for their long-run continuation. Further, it should be acknowledged that pursuit of economic objectives, to the extent that they expand the tax base, often more

effectively contribute to the long-run maximization of social objectives.

It is this line of reasoning that at this point causes us to feel that pursuit of investment objective options VIII and IX would most effectively satisfy the intent of the Alaska voters if they approve the creation of the Permanent Fund.

It appears to us that the following activity is now appropriate for the State Investment Advisory Committee:

- (1) Select on a preliminary basis the objectives to be pursued, establish the priority for each.
- (2) Fully analyze the implications and effects of the pursuit of each objective.
- (3) Refine, consolidate, and perhaps reduce the objectives to be pursued, establishing a relative priority for each.
- (4) Determine certain more specific guidelines (e.g. investments inside and outside the State of Alaska, the fund's interface with the private sector, and the mix between short-run and long-run maximization of objectives).
- (5) Determine the organizational structure, administrative procedures, and other specifics required for implementation of the fund.

This working paper represents only our initial thinking on this matter and is intended solely as a basis for discussion which will

lead to a specific identification of further analysis to be performed.

A handwritten signature in cursive script, appearing to read "Robert R. Richards", written over a horizontal line.

Robert R. Richards

# Alaska Pacific Bank

Working Paper #2

October 13, 1976

## THE CURRENT STRUCTURE OF ALASKA'S ECONOMY

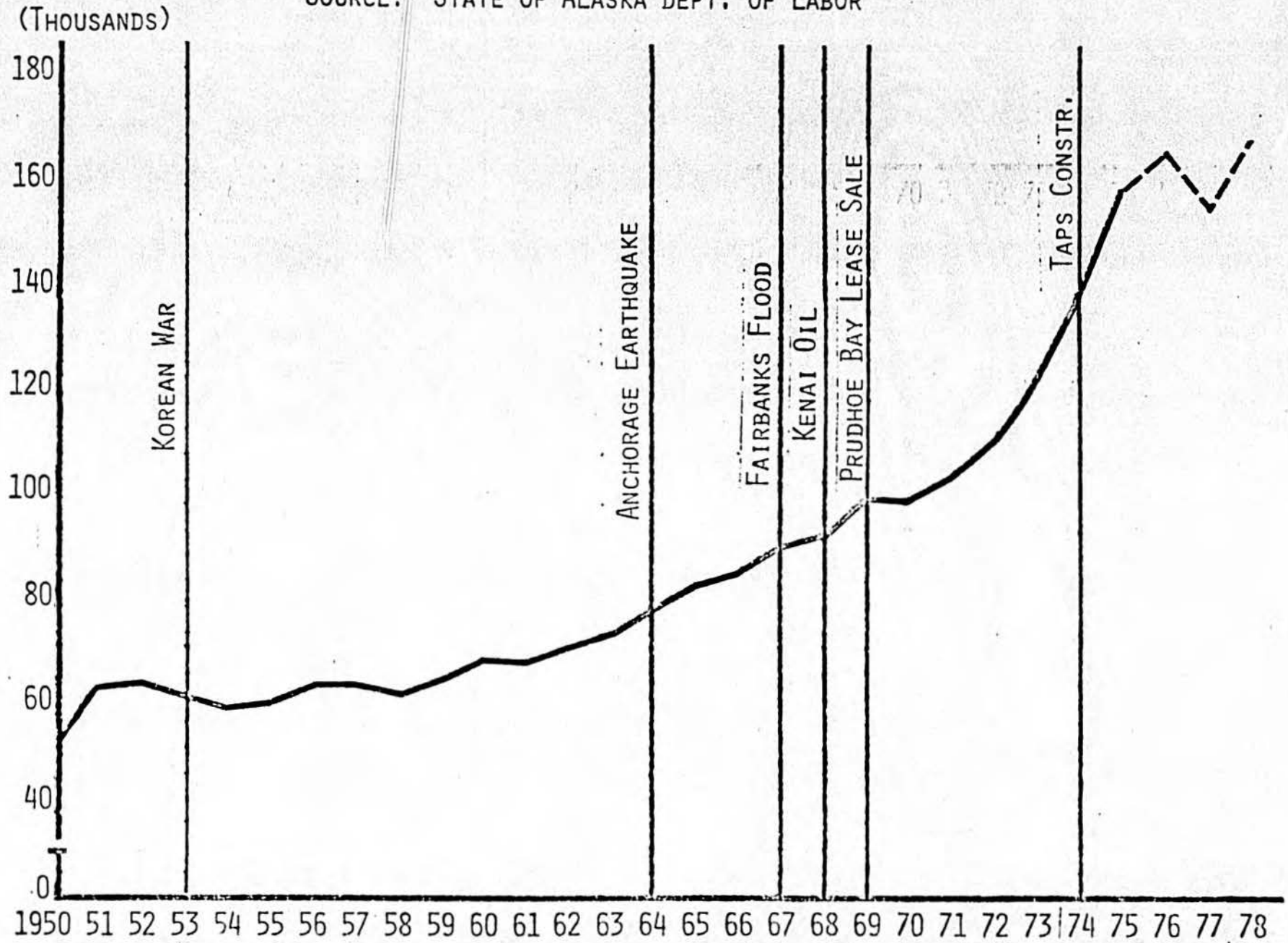
In accordance with the directive given to us, this second working paper defines the nature of the Alaska economy as it is today in order to better understand the economic climate within which any investment objective option for the proposed Permanent Fund would operate.

THE CURRENT STRUCTURE OF ALASKA'S ECONOMY  
AS IT IS TODAY

Cyclicalilty.....  
Seasonality.....  
Diversification.....  
Labor Intensity.....  
The Public Sector.....

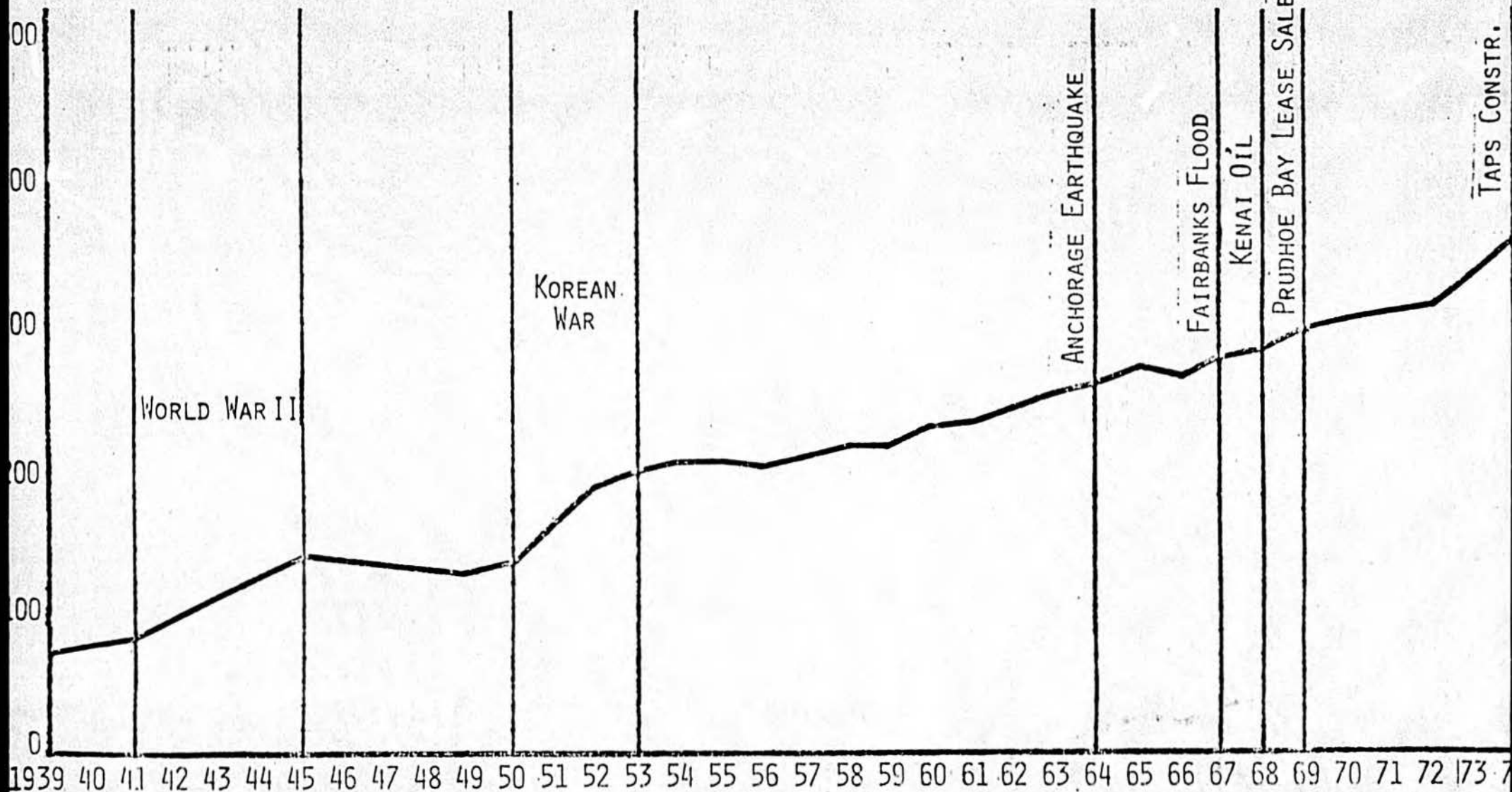
# ALASKA CIVILIAN EMPLOYMENT

SOURCE: STATE OF ALASKA DEPT. OF LABOR



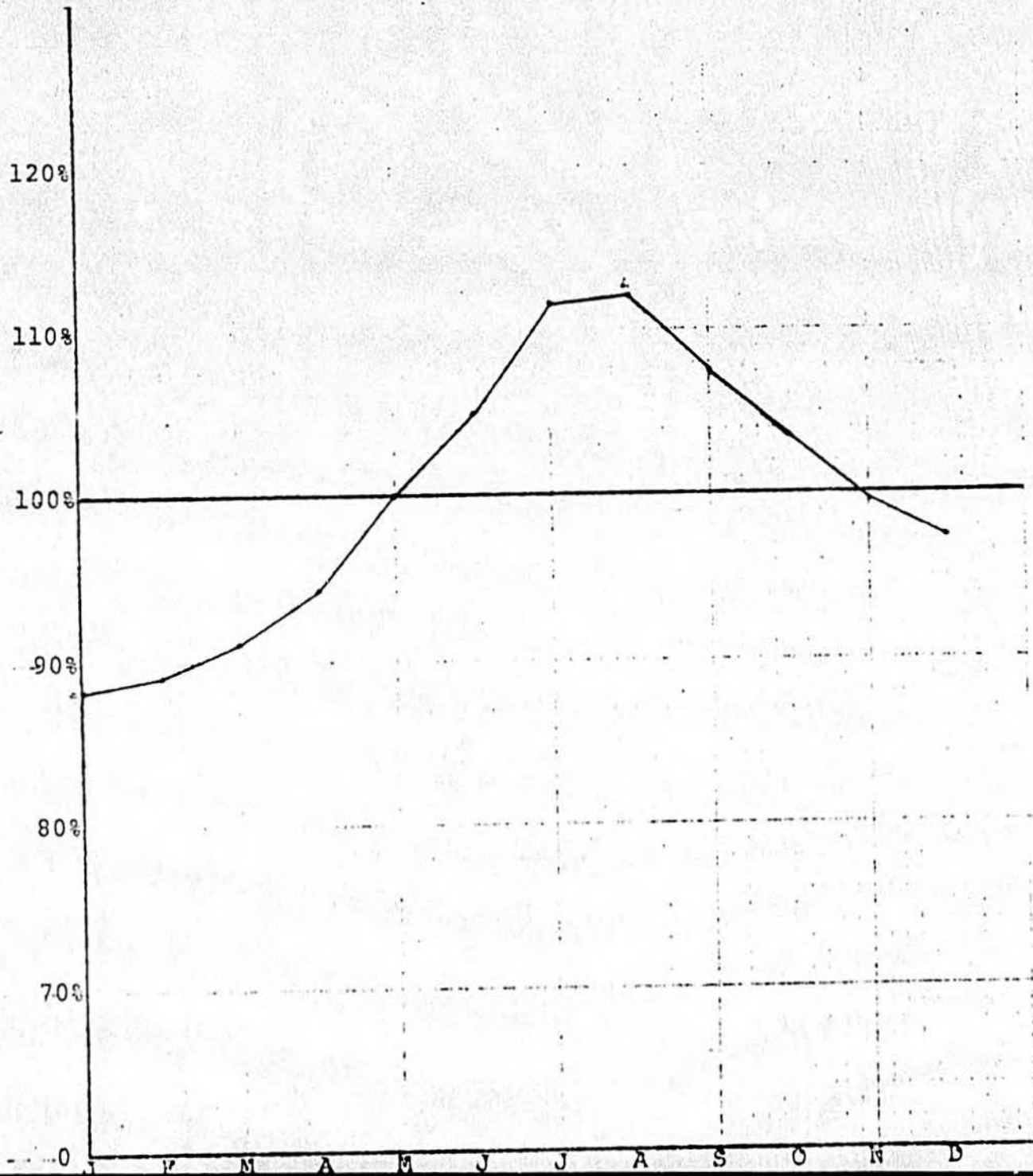
ALASKA POPULATION  
(1939-1974)

THOUSANDS)



(5)

1972  
1973  
data  
series



Wage and Salary Civilian Employment Mix 1975

*Accounting  
Personnel  
Industry  
Food Serv.  
Construction*

<u>Alaska</u>		<u>% of Total</u>
Industry		
Trade, Services, Finance		36.4
Government		31.0
Construction		14.4
Trans., Comm., Util.		10.0
Manufacturing		5.5
Mining		2.7

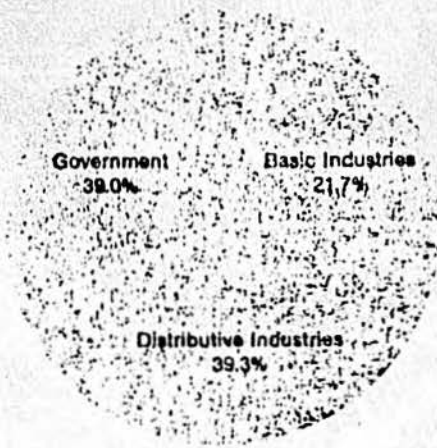
<u>Industry Group</u>		<u>% of Total</u>
Distributive		46.4
Government		31.0
Basic		22.6

<u>United States Average</u>		<u>% of Total</u>
Industry		
Trade, Services, Finance		46.1
Manufacturing		23.6
Government		18.8
Trans., Comm., Util.		5.9
Construction		4.7
Mining		1.0

<u>Industry Group</u>		<u>% of Total</u>
Distributive		52.0
Basic		29.3
Government		18.8

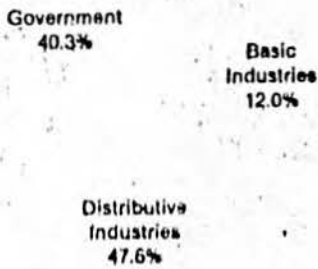
1975 #2

### EMPLOYMENT MIX ALASKA



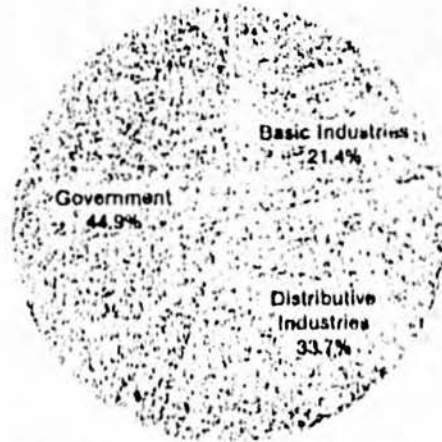
Source: State of Alaska, Department of Labor

### EMPLOYMENT MIX ANCHORAGE



Source: State of Alaska, Department of Labor

### EMPLOYMENT MIX FAIRBANKS

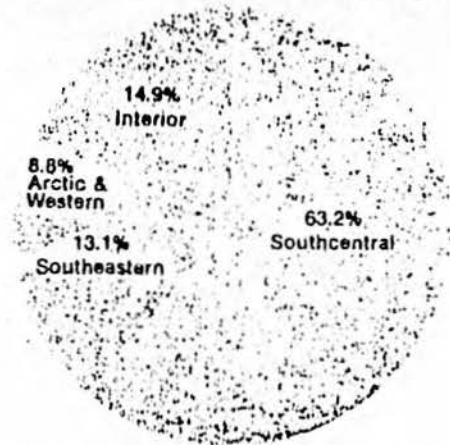


Source: State of Alaska, Department of Labor

1973  
max wealth in terms of  
output & goods & services  
& net income from economic trans

Seasonality } skill level

GROSS STATE PRODUCT BY REGION



Source: Institute of Social, Economic and Government Research, University of Alaska.

1973

ALASKA POPULATION BY REGION

<u>Region</u>	<u>% of Total</u>
Southcentral	54.5
Interior	17.4
Arctic & Western	16.3
Southeastern	11.9

PER CAPITA PERSONAL INCOME BY STATES 1974

State	Amount (\$000)
ALASKA	7,062
District of Columbia	7,044
Connecticut	6,455
Delaware	6,306
New Jersey	6,247
Illinois	6,234
New York	6,159
Hawaii	6,042
California	6,032
Nevada	6,016
Maryland	5,943
Michigan	5,883
Massachusetts	5,757
Washington	5,710
North Dakota	5,583
Ohio	5,518
Colorado	5,515
Kansas	5,500
UNITED STATES	5,448
Pennsylvania	5,447
Minnesota	5,422
Florida	5,416
Wyoming	5,404
Rhode Island	5,343
Virginia	5,339
Oregon	5,284
Iowa	5,279
Nebraska	5,278
Wisconsin	5,247
Indiana	5,184
Arizona	5,127
Missouri	5,036
Montana	4,956
Texas	4,952
New Hampshire	4,944
Idaho	4,918
Georgia	4,751
South Dakota	4,685
North Carolina	4,665
Maine	4,590
Oklahoma	4,581
Tennessee	4,551
Vermont	4,534
Utah	4,473
Kentucky	4,442
Louisiana	4,391
West Virginia	4,372
South Carolina	4,311
Alabama	4,215
Arkansas	4,200
Mississippi	3,803

*To adjust  
for cost of living  
different*

*29.6% higher  
than U.S. average*

*Wyo. releases  
= 90.70+*

LABOR INTENSITY BY INDUSTRY GROUP

Government

Trade & Services

Fishing

Tourism

---

Forest Products

Construction

---

Petroleum

Highly Labor Intensive

Moderately Labor Intensive

Capital Intensive

**LABOR UNION MEMBERSHIP 1972**  
**Percent of Nonagricultural Employment**

<u>State</u>	<u>Percent</u>
West Virginia	41.3
Michigan	38.4
Washington	38.3
Pennsylvania	38.2
Hawaii	37.0
New York	36.2
Illinois	35.6
Ohio	34.8
Indiana	33.9
Nevada*	33.6
Missouri	32.9
Montana	30.7
Wisconsin	29.7
New Jersey	29.1
California	28.9
Minnesota	28.3
Oregon	27.9
ALASKA	27.6
Rhode Island	27.3
U.S. AVERAGE	27.2
Connecticut	26.1
Massachusetts	26.0
Kentucky	24.9
Maryland**	21.7
Delaware	20.3
Iowa*	20.0
Utah*	19.4
Alabama*	19.2
Maine	19.1
Colorado	18.9
Wyoming*	18.5
Tennessee	18.4
Vermont	17.7
New Hampshire	17.2
Idaho	17.0
Nebraska*	17.0
Louisiana	16.9
Arizona*	16.6
Arkansas*	16.4
North Dakota*	16.1
Oklahoma	16.0
Virginia*	15.5
Kansas*	15.4
Florida*	14.7
Georgia*	13.9
Texas*	13.5
New Mexico	13.2
Mississippi*	12.6
South Dakota*	11.8
South Carolina*	9.0
North Carolina*	7.5

\* State has a right-to-work law.

\*\* Includes Dist. of Col.

STATE OF ALASKA ESTIMATED REVENUE SOURCES  
FISCAL YEAR 1977

<u>Source</u>	<u>Amount (\$ Millions)</u>	<u>Portion</u>
<u>Petroleum-Related Sources</u>		
Reserves Tax .....	\$ 260	37.2%
Royalties, severance tax, property tax, etc. ....	<u>\$ 155</u>	<u>22.1%</u>
SUBTOTAL .....	\$ 415	59.3%
<u>Other Sources</u>		
Income Taxes .....	\$ 145	20.7%
Other taxes, fees, etc. ....	<u>\$ 140</u>	<u>20.0%</u>
TOTAL .....	\$ 700	100.0%

STATE OF ALASKA ESTIMATED REVENUE SOURCES  
FISCAL YEAR 1985

<u>Source</u>	<u>Amount</u> <u>(\$ Billions)</u>	<u>Portion</u>
Oil and Gas.....	\$2.0	71.4%
Other Sources.....	<u>0.8</u>	<u>28.6%</u>
TOTAL.....	\$2.8	100.0%

During the ten year period of 1964 to 1974, state and local government employment increased by nearly 15,000 employees.

Assuming the state average household size of 3.1 persons implies an increase in Alaska's population of over 45,000. The multiplier effect then adds another 22,000 people. This totals 67,500 people attracted to Alaska because of the expansion of state and local government. This is nearly twice the population impact of the construction, petroleum, hardrock mining, fishing and forest products industries -- the entire basic sector -- combined.

These employment increases reflect the general expansion of state and local government since 1969. In one year (Fiscal Year 1971) the level of State General Fund expenditures doubled. Over the past five years State spending has increased at an annual rate of 26.2%.

As a result of this expansion, the State of Alaska now spends 3.7 times as much per capita as the average state in the country, employs 2.9 times as many people per capita as the average state in the country, and has 4.7 times as much outstanding debt per capita as the average state in the country.

# Alaska Pacific Bank

Working Paper #3

October 13, 1976

## FUTURE DIRECTION OF THE ALASKA ECONOMY

### SHORT-RANGE OUTLOOK

Alaska's economy is now entering a plateau period. Over the next two years, our economic growth will slow considerably.

Three factors are going to be responsible for the forthcoming slowdown in our rate of growth:

1. the substantial decrease in employment on the pipeline project;
2. the likelihood of more modest State spending increases; and
3. a holding back in the private sector because most businessmen and developers in Alaska are expecting a slowdown. (As in any business cycle anywhere, this in turn causes them to become more conservative and helps bring about the very slowdown they expect.)

To put some preliminary numbers on this slowdown, in 1975 civilian employment in Alaska rose 22% above the level of 1974. In 1976 the growth rate is expected to fall considerably to somewhere in the neighborhood of 10%. In 1977 employment is expected to decrease by about 5% - 10%. Employment should hold relatively stable in 1978, then in 1979 with substantial royalty and production tax revenues flowing to the State and a gas pipeline probably under construction, the rate of economic growth should pick up.

It should be emphasized that, despite this forecast of a slowdown, there is not going to be any sort of major bust in the sense of the post-gold rush collapse. These factors will prevent the forthcoming slowdown from turning into a bust.

First, we should keep in mind the huge underpinning of the Alaska economy: government. Over the past decade, federal spending in Alaska has risen steadily at an average annual rate of 10%. This is expected to continue. At the state government level large spending increases are occurring. The Fiscal Year 1975 appropriations provided for a 40.1% increase in expenditures over the level of Fiscal Year 1974; the Fiscal Year 1976 budget increased another 28%; and the Fiscal Year 1977 level of expenditures is expected to rise by nearly 20%.

This huge base of government spending and employment (indeed, providing nearly half the jobs in Alaska) presents a stable underpinning to our economy which helps to mitigate cyclical fluctuations in the private sector.

A second element to keep in mind when analyzing the possibility of a post-pipeline bust is the fact that this project is not a situation wherein on July 1, 1977, everybody is going to lay down their tools and go home. Rather, construction on the pipeline will continue into the early 1980's, gradually increasing the capacity to two million barrels a day.

Nevertheless, the fact remains that it appears at this point that in 1977 there is going to be a fall-off in the number of workers on the pipeline of approximately 18,000. Interestingly, this fall-off is not going to have the catastrophic effect that would appear on the surface. The workers living in the camps and working on the pipeline are having a more modest impact on Alaska's economy than expected. Forty percent of them send their payroll checks directly to the "lover 48" to a bank in their hometowns for deposit. Further, a substantial number of the local checking accounts of the other 60% are simply temporary or flow-through in nature.

The second factor, then, preventing a post-pipeline bust is the fact that the pipeline project has not itself

contributed as much to the present boom as it appears on the surface. Therefore, the winding down of the pipeline project will not have as great a "bust" effect as some believe.

The third element preventing a post-pipeline bust is the fact that it appears that most Alaskans are focusing on the longer range outlook. We know there will be construction of a gas pipeline, one route or another; we know that oil and gas exploration and development is just in its infancy and will grow substantially; we know that the economic impact from the Native Claims Settlement Act will be significant; we know that a certain expansion of LNG plants and of the petrochemical industry is highly probable; we know that there is a good chance of a major hydroelectric project and of the capital being moved; and we know of numerous other events likely to occur in the 1980's.

The relevancy of all of this is that there will continue to be anticipatory expansion in the private sector. In the very same way that the delayed pipeline in the early '70's did not squelch completely the plans of developers, I feel that the forthcoming slowdown also will not squelch completely the activities of developers who look beyond the valley to the strong growth anticipated for the 1980's.

To summarize the outlook for the immediate future: definitely the rate of economic growth will slow down, and there could be a slight downturn in 1977. But this slowdown will be (1) somewhat modest, not in any way resembling a bust, and (2) relatively short in duration.

## LONG-RUN OUTLOOK

The decade of the eighties looks promising for Alaska's economy. Big oil and big government -- the factors underlying Alaska's prosperity in the seventies -- will again promote a great leap forward.

For at least the next decade -- and likely far beyond -- the petroleum industry will serve as the vanguard of Alaska's economic growth.

### Petroleum Industry

The second major oil and gas project in Alaska following construction of the trans-Alaska oil pipeline will be construction of a natural gas pipeline. Although there is as yet no specific route approved for transporting the natural gas from Alaska's North Slope to U.S. markets, three routes have been proposed. Canadian Arctic Gas, Ltd., has applied to the Federal Power Commission for authority to transport the gas through Canada to Montana and onto the Midwest where it will connect with existing systems, terminating in Pennsylvania. El Paso Natural Gas Company is proposing to transport the gas from the North Slope to Point Gravina near Cordova, liquefy it, and ship the LNG to the West Coast. A third entrant, Northwest Pipeline Corporation of Salt Lake City,

has filed for permission to construct a pipeline parallel to the first oil pipeline from Prudhoe Bay to approximately Fairbanks, turn east, and enter Canada where it would connect with existing systems to transport the natural gas to the United States. The Federal Power Commission has announced its intention to rule on this matter by the end of the year. Undoubtedly final resolution of the route is expected to be performed by Congress. This is anticipated to be accomplished by fall, 1977.

Regardless of which route is approved, Alaska will feel a substantial impact during construction of a gas pipeline. Nevertheless, the trans-Alaska route, which would transport gas to tidewater, would be most conducive to development of a petrochemical industry in Alaska.

When looking to the future of the petroleum industry in Alaska, it should be kept in mind that the Prudhoe Bay project on the North Slope, which holds one-fourth of our nation's proved crude oil reserves and nearly ten percent of our nation's proved natural gas reserves, is simply one reservoir in one of Alaska's fifteen sedimentary basins. That is, development on the North Slope represents only the beginning as far as oil development in Alaska is concerned. No one knows for sure, but the guesses in the industry are that there is in the neighborhood of one hundred billion barrels of oil underneath and offshore Alaska.

Our nation's official commitment to pursuing greater energy self-sufficiency has placed a high priority on lease sales on the Outer Continental Shelf. Over half of the U.S. Outer Continental Shelf lies off Alaska. The first offshore oil lease sale in the Gulf of Alaska was held last April, and eight more sales are scheduled over the next two years as indicated in the accompanying table.

#### OCS SALE SCHEDULE FOR ALASKA

Sale Area	Call For Nominations	Sale Date
Lower Cook Inlet		November, 1976 to January, 1977
Gulf of Alaska (Kodiak Shelf)		February, 1977
Bering Sea (St. George Basin)		March, 1977
Beaufort Sea	July, 1976	October, 1977
Bristol Basin	September, 1976	December, 1977
Bering Sea (Norton Basin)	May, 1977	August, 1978
Gulf of Alaska (Aleutian Shelf)	July, 1977	October, 1978
Chukchi Sea (Hope Basin)	September, 1977	December, 1978

Source: Oil and Gas Journal

Another factor inducing oil development is the transfer of forty million acres of land from the federal government to Alaska's Native corporations. Most of the Native corporations which occupy potentially rich oil and gas basins have consummated exploration agreements with petroleum firms, as outlined in the table following.

## NATIVE CORPORATION DRILLING CONTRACTS

### Native Corporations

Arctic Slope Regional Corp.

NANA Regional Corp.

Calista Corp.

Bristol Bay Native Corp.

Koniag, Inc.

Doyon, Ltd.

Ahtna, Inc.

Chugach Natives, Inc.

### Contracting Companies

Standard Oil

Union-Amoco

Texaco

Standard Oil

Shell

Phillips

Standard Oil

Louisiana Land and Exploration

Champlin

Asland

Amoco

Phillips

Another bright star in Alaska's future is the expansion of the petrochemical industry. Current world economic conditions which are not conducive to the construction of petrochemical plants in Alaska can be expected to change in a more favorable direction over time. Of immediate significance, however, is the fact that the State of Alaska owns the oil and gas at Prudhoe Bay and will be receiving a 12½% royalty. Probably the State of Alaska will take this royalty in kind, sell it to those firms that agree to process the gas in some way in Alaska, and thereby strongly influence expansion of a petrochemical industry in Alaska.

### State Government

Another major factor raising Alaska's economy onto a new plateau will be the tenfold increase of revenue to the State of Alaska by the mid-1980's from the 1970 level.

When the North Slope is in full production, the mineral royalties, right-of-way leases, and production taxes will generate substantial revenue to the State. The greatly increased State expenditures will be important not only as ends in themselves by creating employment directly and indirectly, but, to the extent that they are devoted to public works projects such as highways, ports, schools, etc., they will induce additional economic development. For example, expansion of transportation systems in Alaska's interior region might make certain proposed mineral ventures feasible.

#### Hardrock Mining

Although, Alaska's mining industry has been relatively dormant except for extraction of gold, sand and gravel, and a few minor operations, many projects are waiting in the wings to be developed. There is the proposed Lost River fluorite mine to the Seward Peninsula, which contains an estimated one-third of the world's supply of fluorite; there is Mitsubishi's iron ore deposit at Klukwan near Haines; Marcona's iron deposit at Snettisham near Juneau; Newmont Mining's nickle deposit at Glacier Bay; the U.S. Borax molybdenum deposit near Ketchikan; Kennecott's huge copper deposit near Bornite, and many, many others.

One of the most exciting mineral potentials is the Beluga coal deposit across Cook Inlet from Anchorage. The sub-bituminous coal there is very low in sulphur content. The estimated 2.4 billion tons of coal at Beluga contain an energy equivalent 25% greater than that of the crude oil at Prudhoe Bay.

Currently, U.S. Borax is pursuing development of its rich molybdenum deposit near Ketchikan.

Despite Alaska's immense latent mineral potential, currently the annual hardrock mineral production of Alaska is less than one-twentieth as great as that of the average western state.

### Construction

The primary beneficiary of the enormous increase in State expenditures and the necessary expansion of Alaska's infrastructure will be the construction industry. The upsurge of construction projects is already about to commence. In November Alaskans will vote on bond issues totalling nearly \$250 million.

Further, investments by Native corporations and greatly expanded oil and gas exploration and development will generate

large projects, all of which auger well for the construction industry.

### Visitor Industry

Alaska's visitor industry is expected to continue its soaring growth. Indeed, in just the past five years, the number of visitors to Alaska has more than doubled.

Alaska will continue to receive considerable national attention as a result of its dominant position in the nation's quest for energy. As a result, Alaska can look forward to receiving an increasing share of the burgeoning flow of travelers throughout the country. The state Division of Tourism predicts that in ten years more than one million tourists will be visiting Alaska annually -- triple the current level.

Another boost to Alaska's visitor industry is the establishment of the Anchorage Convention/Visitors Bureau. The objective of this organization is to attract to Anchorage some of the more than 47,000 conventions held annually in the United States. Additionally, Alaska's Native corporations are investing in visitor facilities to accommodate a greater flow of tourists to Alaska.

Finally, a virtually untapped market for Alaska's tourist industry are the Japanese. At the height of Japanese visitations to Alaska prior to the imposition of exchange controls, 10,000 Japanese visited Alaska annually. At the same time more than 200,000 Japanese were visiting Hawaii. Alaska, with its spaciousness and splendor, two criteria high on the list of Japanese tourists, has a strong competitive advantage in attracting this important market.

In general the long-run outlook for Alaska's visitor industry is extremely favorable.

#### Forest Products

Alaska's forest products industry looks bleak for the long-run. Not only has expansion been curtailed, but the very existence of the industry in Alaska is in jeopardy.

Ketchikan Pulp Company, in the face of severe federal waste water treatment regulations, has announced its intention to close its mill next year. Champion International, after nearly ten years of apparent endless litigation between the Sierra Club and the U.S. Forest Service, finally abandoned its plans for a huge wood processing complex at Berners Bay.

Further, the Forest Service has adopted the policy of limiting future timber contracts to ten years rather than 55 years. This means an absence of wood volumes sufficient to support large operations, and, therefore, any future developments will be limited to relatively small mills.

Despite these extremely adverse events, the basic facts remain that strong economic advance and growing affluence in Japan, combined with substantial population growth in the State of Alaska, are going to place heavy demands on our timber resources. At the same time, we are currently cutting only about one-third of the state's total annual allowable cut. Accordingly, there is considerable room for expansion of this industry.

It is likely that the Native corporations, with their keen interest in creating jobs in their respective regions, will be the key element in any future growth of Alaska's forest products industry.

### Fishing

The long-run outlook for Alaska's fishing industry is optimistic as the industry diversifies and its business management techniques become increasingly sophisticated. The major

long-range potential for Alaska's fishing industry may very well be with bottom fish. Increasing demand from Japan, rapidly rising world prices, and improving market acceptance throughout the United States are inducing more and more Alaska fishermen to harvest bottom fish.

Additionally, federal management of the shellfish and halibut fisheries is showing definite signs of effectiveness. Also State and federal aquaculture programs now suggest salmon harvests in the 1980's may approach 50 million fish. It seems reasonable to expect continued gradual growth of Alaska's fishing industry, accompanied, however, by the normal cyclical fluctuations resulting from biological and climatic factors. Again, Alaska's Native corporations will likely be a major force in the development of the state's fishing industry.

Nevertheless, a huge question mark hangs over the future of this industry concerning the uncertainty of whether or not countries will develop the wisdom and cooperation necessary for effective management of our fish resources to conserve adequate supplies for future generations.

#### Summary

To summarize the outlook for Alaska's basic industries, the three most rapidly growing industries in the 1980's will be

petroleum, construction, and the visitor industry. By early in the next decade these industries will surpass the fishing industry in importance as a source of employment. The fishing industry is expected to grow moderately. The hardrock mining and forest products industries are likely to experience some growth but in slightly more erratic patterns and uncertain rates. Finally, agriculture remains a long shot.

In the public sector, state and local government will replace federal government as the dominant employer in the state.

### Anchorage

Anchorage is currently, and will continue to be, the state's commercial and financial center. As a result, the growth of the Anchorage area will reflect the general economic development of Alaska.

In the early 1980's employment in Anchorage will break through the 100,000 mark -- a 50% increase over today's level. By 1985 the population of the Anchorage area is expected to be well over one-quarter million people.

### Social Effects

Economic growth has always been accompanied by social costs.

But when looking at the complexion of Alaska's future economic growth, it is clear that the type of industrial expansion this state is about to experience will also contribute substantial social benefits.

In fact it can be asserted that, to the extent the petroleum industry will play the major role in Alaska's economic development, the social benefits accruing from continued growth will far outweigh the social costs.

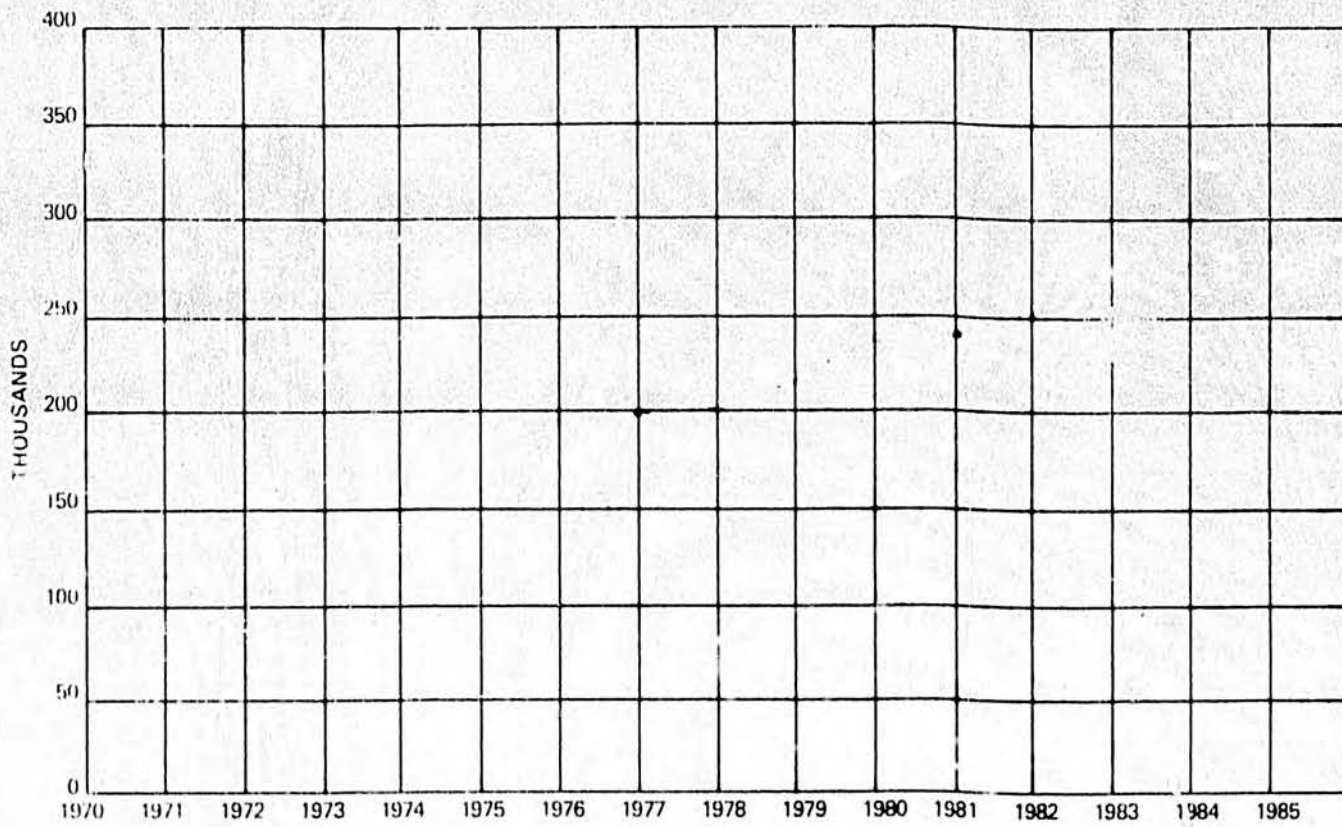
One social benefit will be a more stable structure to our economy. Heretofore Alaska's major industries have been highly labor intensive, highly seasonal, and highly subject to cyclical fluctuations. Now, however, certain areas in Alaska have the opportunity to break out of this pattern as a result of expansion by the extremely capital intensive petroleum industry.

Another social benefit from growth of the petroleum industry is the fact that in the long-run public revenues accruing from this private operation will increase to a far greater degree than the need for public services. For example, the 1,700 permanent workers required to operate the pipeline and produce North Slope oil implies a population increase of about 7,500, while at the same time revenue to the State of Alaska increases tenfold from pre-pipeline levels. With huge

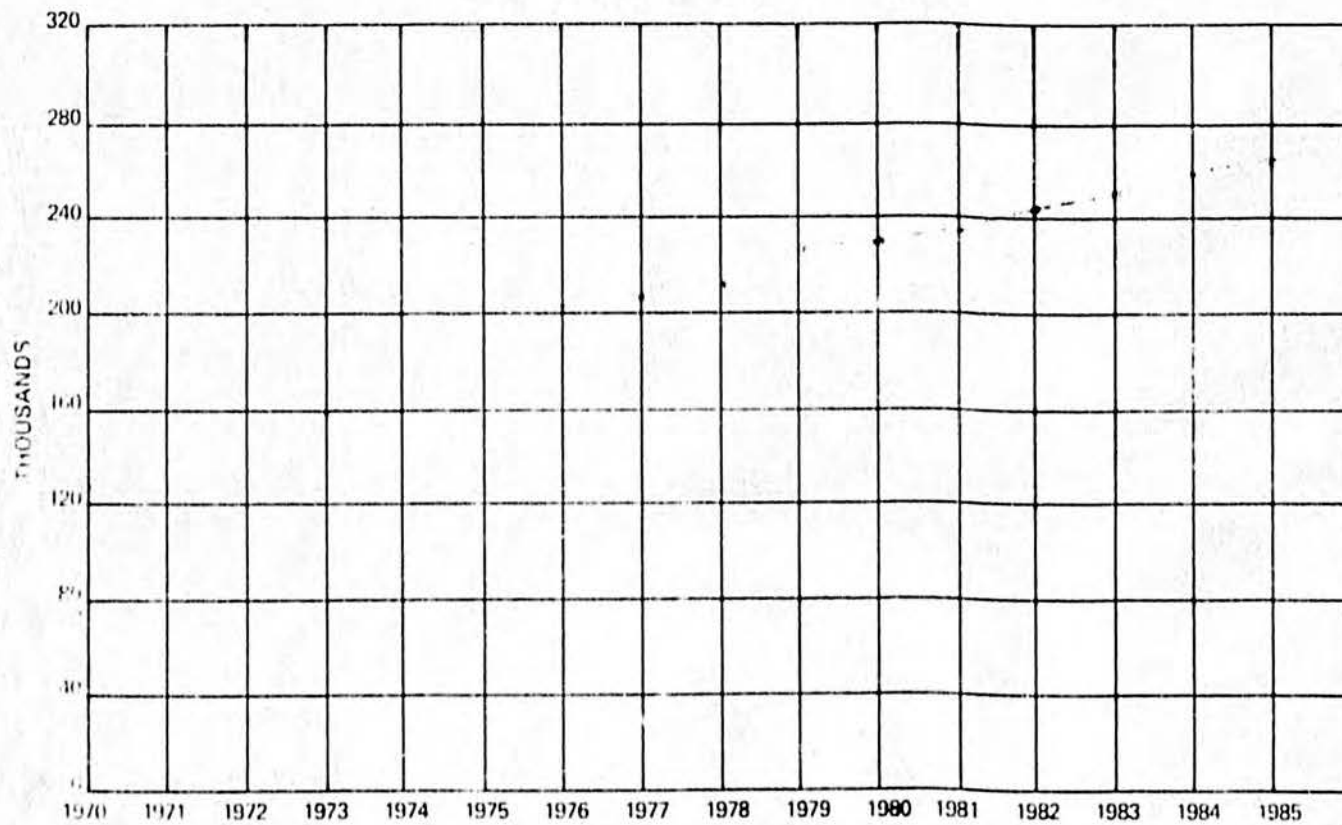
State revenues and few people, Alaska has an opportunity to enjoy relatively profuse public services without a commensurately great tax burden on local families and businesses.

Note: This discussion of the long-run outlook for Alaska's economy dwells solely on major anticipated events and general trends. It is not intended to be a comprehensive dissertation. Certainly, many factors not discussed herein may play a role in Alaska's economic future. Some of these include the proposed hydroelectric projects, the state capital move, and growth of Alaska's agriculture and handicraft industries.

**ALASKA EMPLOYMENT FORECAST  
(Excludes Uniformed Military)**



**ANCHORAGE POPULATION FORECAST**





# Alaska Pacific Bank

Working Paper #4

October 13, 1976

## POLICY IMPLICATIONS

**Cyclicalities:** Alaska's economy is considerably less cyclical than normally believed. However, certain industries, i.e., forest products, fishing, and construction are more subject to cyclical fluctuations than normal. Therefore, economic development should seek more non-cyclical industries.

**Seasonality:** More jobs are needed in November, December, January, February, March, and April -- the "wintertime." Some new sources of substitute wintertime jobs should rank high to moderate in labor intensity. Future economic development should seek more counter-seasonal industries.

**Diversification:** The greatest dislocations in Alaska's economy appear in the lack of diversification. Whereas, for the U.S. as a whole, about one-third of the jobs come from the basic industries and one-fifth from government, in Alaska those proportions are reversed. But despite government's large participation in the labor force, it

contributes only one-fifth of the Alaska gross product. Alaska is also out of balance in terms of regional productivity. Almost two-thirds of the gross state product come from southcentral Alaska alone.

Labor Intensity: Petroleum, which is capital intensive and supplies less than 3% of Alaska jobs, contributes about as much gross state product as government, which is highly labor intensive and accounts for about one-third of all the jobs in Alaska.

Outlook:  
(Short Range) The rate of economic growth is expected to pick up in 1978 or 1979, following a moderate lull. Therefore, no explicit, abnormal injection of public spending into the economy is needed for counter-cyclical purposes.

Outlook:  
(Long Range) The long range employment projections for Alaska assume continued, gradual expansion of the infrastructure.

The growth that will naturally occur will be highly capital intensive and therefore will not imply a commensurately great demand for public services.

# Alaska Pacific Bank

Working Paper #5

October 13, 1976

## REGIONAL SUMMARY

As we have observed before, it is dangerous to make generalizations about Alaska's economy. Activity varies considerably from region to region. The southcentral and interior regions, which provide approximately three-fourths of Alaska's gross state product, have exhibited rather sluggish economic growth in 1976 relative to the past two years. On the other hand, the Arctic with its stepped up oil and gas exploration and development, western Alaska with its improved fishing industry, and southeastern Alaska with substantial production increases in the forest products industry are experiencing strong, healthy economic activity.

## SOUTHCENTRAL

Anchorage, with about half of the population and nearly half of the jobs in Alaska, is exhibiting poorer retail sales when compared to 1975. Further, during the first quarter of the year the employment growth rate fell to half the rate of the same period last year. Reflecting the slowing population influx, Anchorage school enrollment during the first quarter was less than 1% greater than the first quarter of 1975.

The Anchorage housing market is considerably weaker this year than last. The low sales to listings ratio of homes selling above \$70,000 implies a rather serious accumulation of inventory. Currently it takes approximately one week longer to sell a home this year than last. The value of residential building permits through the first seven months of the year are down 26% from the same period last year. Further weakening is anticipated next year.

Much of the growth from Anchorage is spreading north into the Matanuska Valley. Both permanent and residential land sales have been soaring at a pace similar to recent "land booms" in the southern United States. The Palmer Industrial Park will house a new acetylene and air separation plants for the production of oxygen in its gaseous and liquid form for distribution through Alaska.

On the Kenai Peninsula a refined products pipeline is under construction from Kenai to Anchorage. Expansion continues on the largest nitrogen fertilizer complex in the world as Collier Carbon and Chemical Company prepares to double its ammonia and urea plant capacity by the fall of 1977. Also in Kenai, Pacific Alaska LNG awaits approval from the Federal Power Commission to commence construction of a \$660 million liquefied natural gas plant. In Seward consideration is being given to the construction of a \$6 million barite

grinding mill for drilling mud used in offshore oil and gas exploration. Also, in connection with anticipated OCS exploration in the Gulf of Alaska, the coastal communities of Yakutat, Seward and Cordova are commencing to feel the initial signs of industrial and population growth.

#### INTERIOR

The Fairbanks area has registered virtually no employment growth this year, and sellers of both consumer goods and business, industrial, and construction equipment report rather poor sales.

Similar to the Anchorage situation, the Fairbanks housing market appears to be loosening. There are approximately three times as many units available for rent this year as last year's annual average. Rapid price increases appear to have abated, with some price declines being reported.

Nevertheless, economic activity in the Fairbanks area remains strong. Work continues on the \$120 million Chena River Flood Control project with a \$1.4 million contract for levy construction let in April. Energy Company of Alaska broke ground in June for construction of the first phase of a refinery at North Pole. This job will not only create jobs, but will provide lower cost petroleum products to interior Alaska.

## ARCTIC AND WESTERN

The arctic and western regions of Alaska are enjoying relatively strong economic activity this year. Development at Prudhoe Bay and oil and gas exploration in Pet 4, accompanied by investment activity of the Arctic Slope Regional Corporation, are contributing to a vigorous economy in the Alaska Arctic.

Similar, oil and gas exploration and construction projects of the NANA, Bering Straits, Calista, and Bristol Bay Native corporations, accompanied by another good return of salmon, suggests a relatively satisfactory year for western Alaska.

## SOUTHEASTERN ALASKA

Higher prices for fish and timber products underlie a strong economy in southeastern Alaska this year. Offsetting somewhat the favorable prices, the return of salmon to southeastern Alaska is expected to be relatively poor, having not yet recovered from flood damage to spawning grounds and severe winters of a few years ago.

Both prices and output volumes are up considerably in the forest products industry, responding to healthy economic recovery in Japan.

On the other hand, the visitor industry in southeastern Alaska is reported to be registering a rather mediocre performance when compared to previous years' growth rates.

# Alaska Pacific Bank

Working Paper #6

November 5, 1976

## INTERFACE OF THE PERMANENT FUND WITH THE ALASKA BANKING SYSTEM

Relative to consumers in other states, Alaskans enjoy access to a broad banking system. Exhibit A indicates that on a per capita basis there are more separate banking institutions in Alaska than in all of the other western states. Further, as indicated on Exhibit B, Alaska communities of over 10,000 people have twice as many banks as the United States average. Finally, as indicated on Exhibit C, some extremely small communities in Alaska are served by banks.

The map labeled Exhibit D indicates the broad geographical disbursement of Alaska's commercial banking system. A specific listing of the location of Alaska's banks is on Exhibit E. Note that there are over 100 banking offices in Alaska.

Commercial banks are only a part -- and indeed a small part -- of Alaska's total financial industry. Exhibit F is a partial list of other financial institutions doing business directly in Alaska.

As you can clearly see from these exhibits, Alaska consumers

have available to them a relatively broad geographical disbursement of commercial banks and a very wide variety of types of financial institutions with which to deal.

The information that I have presented to this point is primarily background data. The most important element of the Alaska banking system in terms of the Permanent Fund is the role which Alaska banks have played as conduits for channeling funds from large, long-term investors to Alaska's families and businesses.

Over 80% of the money which finances the purchase of homes in Alaska does not come from Alaska bank deposits. It comes from large institutional purchasers of mortgages. These institutional investors are comprised basically of (1) federal agencies (Federal National Mortgage Association and Federal Home Loan Mortgage Association) and (2) "outside" savings institutions, and (3) union pension plans.

The banks originate the mortgages, that is, they take the application from the borrower, perform the credit analysis, do all the paper work, etc. Then the banks sell the mortgages to these large investors and service the mortgages for a fee. Servicing includes accepting the payments, making the tax and insurance payments, etc. The borrower deals solely with the bank and is not even aware of the institutional investor who purchased his mortgage.

Another way in which the Alaska banks serve as conduits for

the flow of funds into the Alaska economy is through loan participations with "outside" banks. This situation normally arises when a customer comes into his bank in Alaska and requests a loan that exceeds the lending authority of the particular Alaska bank. The bank then presents the loan to an outside bank with which it has a correspondent relationship for consideration by the "outside" bank to lend the amount of money which exceeds the Alaska bank's authority. This is a very common practice, and it goes on everyday. Exhibit G is a partial list of United States financial institutions participating in loans in Alaska.

Probably the most significant investor which injects funds into Alaska's economy through the Alaska banks is the State of Alaska. The state General Fund, the Public Employees' Retirement Fund, and the Teachers' Retirement Fund currently hold over \$100 million of loans and mortgages which were purchased from Alaska's banks.

Additionally, the Small Business Administration has been a substantial purchaser of Alaska's loans.

The relevancy for all of this for our discussion today is that the Alaska banking system is structured and has operating procedures established for serving as an effective conduit for the flow of funds from large investing agencies to Alaska's families and businesses. The Alaska banking system has a considerable amount of experience in this procedure and perceives this as one of its important roles.

The investing agency benefits from this system by receiving the knowledge, skills, manpower, and entire mechanism of, I think, an extremely efficient group of institutions set up to perform this very function. The large institutional investor pays a fee for this service which obviously the institutional investors to date have felt was more economical than setting up their own organizations to take loan applications, process the paper work, etc.

The conclusion then, it seems to me, is that if a portion of the Permanent Fund is allocated toward loans to consumers, families, or Alaska businesses and organizations, it appears to make sense to do this through an efficient system of financial institutions already set up to perform this function.

Further, I think that consideration should be given toward allowing Alaska banks to participate in large economic development type loans. Some Alaska banks already participate in major financing in the state which actually was originated between the corporate headquarters of national firms and a major bank "outside." The advantage of having the participation by the Alaska banks is twofold: (1) the Alaska bank can offer an understanding of the environment within which the loan is being made and (2) the Alaska bank provides a certain amount of local supervision of the loan by maintaining surveillance over the activity which the loan is financing.

I think that most bankers, in Alaska are quite enthusiastic over the Permanent Fund because they are aware of the tremendous

good that can be forthcoming from this vehicle. They certainly do not perceive it as a threat. It should be kept in mind that commercial banks are in business to make short-term commercial loans -- hence, their name. The Permanent Fund, on the other hand, as indicated in my very first working paper presented to you, should have a long range orientation. Its very name implies this and, indeed, the Alaska voters had this in mind when they approved it. So, operated as I think they ought to, the Permanent Fund and the Alaska banking system should not be in a competitive posture.

As an added service to the Permanent Fund, however, the Alaska banking system offers an efficient, conduit through which the Permanent Fund could channel certain of its investments.

EXHIBIT A

NUMBER OF BANKS\* PER 100,000 PERSONS

<u>State</u>	<u>Number</u>
ALASKA	3.75
Idaho	3.43
Washington	2.79
Oregon	2.32
Nevada	1.60
Hawaii	.88
Arizona	.83
California	.77
Utah	.55

\*Number of separate institutions

Source: "Blue Chart - A comparative position table of the non-reserve city banks and the reserve city banks in the Twelfth Federal Reserve District," The Pacific Banker and Business.

EXHIBIT B

AVERAGE NUMBER OF COMMERCIAL BANKING ORGANIZATIONS  
PER CITY IN U.S. AND ALASKA

(1970)

	Size of City			
	<u>5-10,000</u>	<u>10-15,000</u>	<u>15-30,000</u>	<u>30-50,000</u>
Total U.S.	1.99	2.41	2.83	3.29
Alaska	2.50	5.00	--	6.00

Sources: 1970 Census of Population, Advance Report, Final Population Count, Bureau of the Census U.S. Department of Commerce. American Bank Directory, Spring and Fall Editions, 1970, Fall Edition 1973. Operating Banking Officers, January 1, 1970, FDIC. Standard Metropolitan Statistical Areas of the United States, 1967, Bureau of the Budget, Executive Office of the President. Subsidiary Bank of Bank Holding Companies, Dec. 31, 1969, Federal Reserve Board.

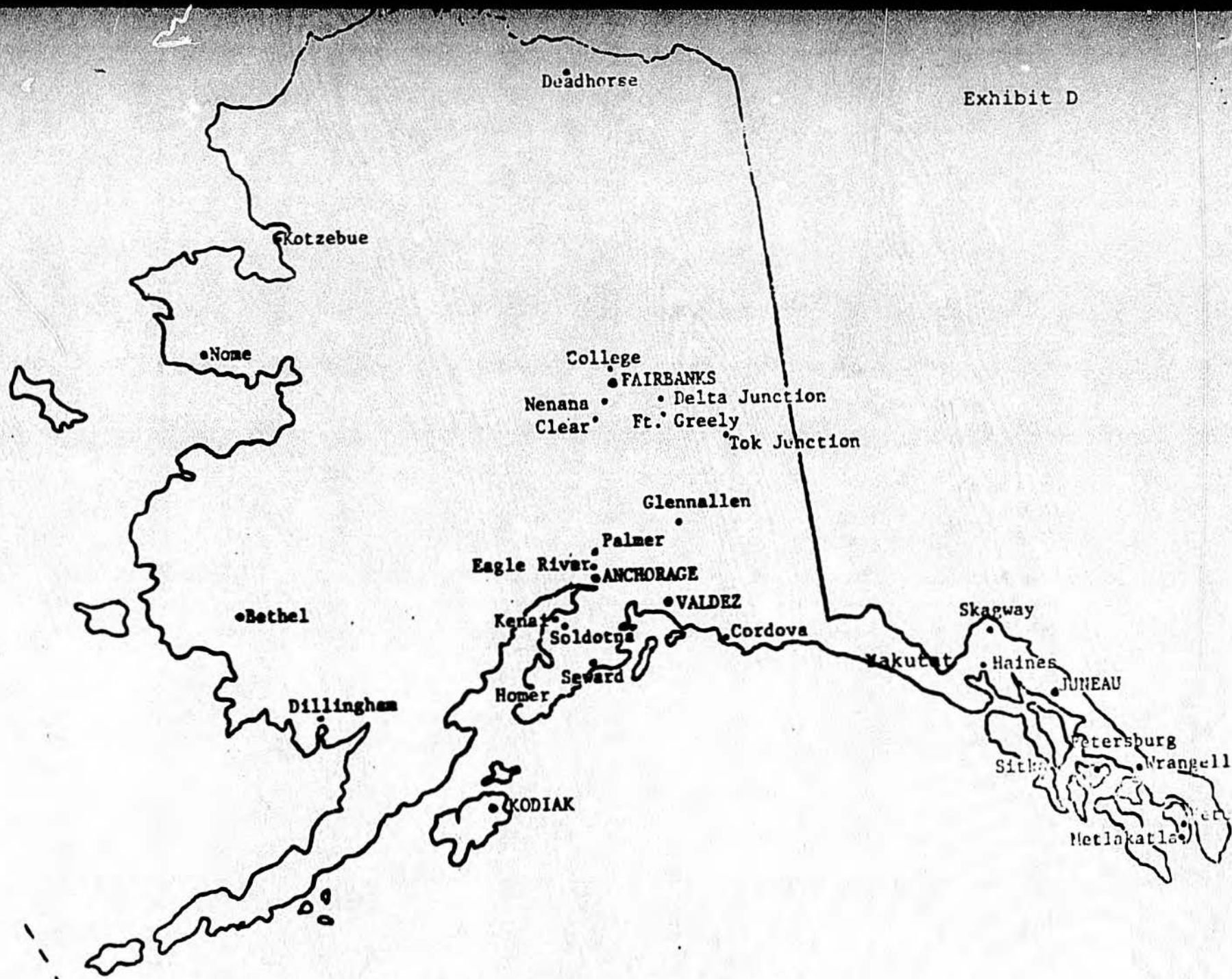
EXHIBIT C

ALASKA COMMUNITIES WITH COMMERCIAL BANKS

<u>Community</u>	<u>Population*</u>
Deadhorse	163
Yakutat	190
Tok	214
Wasilla	300
Nenana (Clear)	362
Glennallen	363
Skagway	675
Delta Junction	703
Dillingham	914
Valdez	1,005
Metlakatla	1,050
Homer	1,083
Palmer	1,140
Cordova	1,164
Soldotna	1,202
Haines	1,351
Seward	1,587
Kotzebue	1,696
Fort Greely	1,820
Wrangell	2,029
Petersburg	2,042
Barrow	2,104
Adak	2,249
Bethel	2,416
Eagle River	2,437 (incl. Anch. Borough)
Nome	2,488
Sitka	3,370
College	3,434 (incl. Fairbanks Bor.)
Kenai	3,533
Kodiak	3,789
Ketchikan	6,994
Juneau	13,556
Fairbanks	45,864
Anchorage	126,333

Source: Research and Analysis Section, Employment Security Division,  
State of Alaska, Department of Labor, June, 1971.

\*1970 census



ALASKA COMMUNITIES WITH COMMERCIAL BANKS



EXHIBIT E  
ALASKA FINANCIAL INSTITUTIONS

BANKS	Main Office Location	Main Office City	Other Offices	No.
<u>Commercial Banks</u>				
National Bank of Alaska	Anchorage	4th and E Dimond Fifth Avenue Spenard Ft. Rich. Gov't Hill Airport Mall Russian Jack Sand Lake	Adak Cordova Dillingham Fairbanks (2) Glennallen Homer Juneau (2) Kenai Ketchikan (2) Kodiak (2) Metlakatla Petersburg Sitka (2) Skagway Soldotna Valdez Wasilla Wrangell	33
First National Bank of Anchorage	Anchorage	646 W. 4th 5th Avenue Eagle River Eastchester Elmendorf Northern Lgts. Parkway S. Center	Bethel Cordova Fairbanks Haines Juneau (2) Kodiak Palmer Seward Sitka Valdez	19
Alaska Statebank	Anchorage	442 W. 5th Drive-in Br. Mt. View Northern Lgts. Tudor	Fairbanks (2) Kenai	8
Alaska National Bank of the North	Fairbanks	Head Office Airport Rd. Eielson Int'l Arpt. University	Anchorage (3) Barrow Deadhorse Delta Junction Kotzebue Nenana Nome Tok Valdez	16

EXHIBIT E Cont'd

	<u>Main Office Location</u>	<u>Main Office City</u>	<u>Other Offices</u>	<u>No.</u>
Alaska Bank of Commerce	Anchorage	712 W. 4th Airport C Street Drive-in Eagle River Tudor Boniface O'Malley	Palmer Wasilla	10
First National Bank of Fairbanks	Fairbanks	Cushman College Cushman & Gaffney Ft. Wainwright Gavora Mall	Clear Eagle River Ft. Greely North Pole	9
First National Bank of Ketchikan	Ketchikan	Head Office Totem	Anchorage Craig Petersburg	5
Peoples Bank & Trust	Anchorage	644 W. 8th Sand Lake University Center		3
B. M. Behrends	Juneau	Head Office Mendenhall	Hodnah Yukutat	4
Security National Bank	Anchorage	Head Office		1
United Bank Alaska	Anchorage	Head Office		1
Alaska Pacific Bank	Anchorage	Head Office		<u>1</u>
<u>TOTAL NATIONAL BANKS</u>				83
<u>TOTAL STATE BANKS</u>				<u>27</u>
<u>TOTAL COMMERCIAL BANKS</u>				110
<u>Savings Banks</u>				
Alaska Mutual Savings Bank	Anchorage	5th & F Airport Heights Eagle River		3
Mt. McKinley Mutual Savings Bank	Fairbanks	Third Avenue		1
<u>TOTAL SAVINGS BANKS</u>				<u>4</u>
<u>TOTAL BANKS</u>				114

EXHIBIT E Cont'd

	<u>Main Office Location</u>	<u>Main Office City</u>	<u>Other Offices</u>	<u>No.</u>
<u>Savings &amp; Loan Association</u>				
First Federal Savings and Loan	Anchorage	305 W. 5th Dimond Muldoon Spenard	Kenai Kodiak	6
Alaska Federal Savings and Loan	Juneau	301 N. Franklin	Ketchikan Sitka Palmer Valdez	5
Arctic First Federal Savigs and Loan	Fairbanks	Head Office Downtown Steese	Anchorage Craig* Petersburg* Wrangell*	4
Home Federal Savings and Loan	Anchorage	535 D Street		1
<u>TOTAL SAVINGS &amp; LOAN ASSOCIATIONS</u>				<u>16</u>
<u>TOTAL BANKS &amp; SAVINGS &amp; LOAN ASSOCIATIONS</u>				<u>130</u>

\*Agency only

EXHIBIT F

PARTIAL LIST OF FINANCIAL INSTITUTIONS DOING BUSINESS IN ALASKA

Commercial Banks

National Bank of Alaska  
First National Bank of Anchorage  
Alaska Statebank  
Alaska National Bank  
Alaska Bank of Commerce  
First National Bank of Fairbanks  
First National Bank of Ketchikan  
B. M. Behrends Bank  
Peoples Bank and Trust Company  
Security National Bank  
United Bank Alaska  
Alaska Pacific Bank

Savings Banks

Alaska Mutual Savings Bank  
Mt. McKinley Mutual Savings Bank

Savings and Loan Associations

First Federal Savings and Loan  
Alaska Federal Savings and Loan  
Arctic First Federal Savings and Loan  
Home Federal Savings and Loan Association

Credit Unions

AF & S Federal Credit Union  
Alaska Command Federal Credit Union  
Alaska Teamsters Federal Credit Union  
Anchorage City Employees Federal Credit Union  
Anchorage Teachers Federal Credit Union  
CAA8 Federal Credit Union F301  
Starliner Federal Credit Union

Leasing Companies

NBA Leasing Corporation  
UCB Leasing Corporation  
Bank of California Leasing Corporation  
Crocker-McAllister Leasing Corporation  
First Bank Leasing Corporation  
Chandler Leasing Corporation  
IDS Leasing Corporation  
Liberty Leasing Company, Inc.  
Professional Leasing Company  
Booth Computer Corporation  
Rockwood Computer Corporation  
IBM Corporation

EXHIBIT F Cont'd.

Mortgage Companies

Ballard and Associates  
Coast Mortgage Company  
Commonwealth  
Cronin Mortgage Company  
First Chicago Realty Services Company  
Kassler and Company  
Lomas and Nettleton  
Metropolitan Mortgage and Security of Alaska, Inc.  
Spokane Mortgage  
T-K Mortgage-Investment  
First Bank Mortgage

Finance Companies

Household Finance Corporation  
Lectro Alaska Finance, Inc.  
Beneficial Finance Company  
Pacific Finance  
AGC of Alaska Sales and Service  
GMAC  
Chrysler Credit Corporation  
Ford Motor Credit Corporation  
Friendly Ford  
CIT Corporation  
Northwest Acceptance Corporation  
Westinghouse Credit Corporation  
General Electric Credit Corporation  
Safeco Finance Company  
Deere Credit Corporation  
Credit Alliance Corporation

Investment Banks, Advisors, and Money Managers

Brown Brothers Harriman and Company  
Schroeder Capital Corporation  
Scudder, Stevens, and Clark  
Loomis and Kennedy  
Lehman Brothers  
Wells Fargo Bank Trust Department  
Union Bank Trust Department  
Bank of America Trust Department  
Seattle-First National Bank Trust Department  
Trust Company of the West

EXHIBIT G

PARTIAL LIST OF U.S. FINANCIAL INSTITUTIONS WHICH BUY OR PARTICIPATE IN ALASKA LOANS

Commercial Banks

American Security and Trust Company	First City National Bank of Houston
Bank of America	First Western Bank and Trust
Bank of California	Mellon National Bank
Bank of Hawaii	Morgan Guaranty Trust Company
Bank of the Southwest, Houston	National Bank of Tulsa
Brown Brothers Harriman & Company	Pacific National Bank of Seattle
Chase Manhattan Bank	Peoples National Bank of Washington
Chemical Bank New York	Rainier National Bank
Citibank (First Nat'l City Bank, N.Y.)	Republic National Bank of Dallas
Continental Illinois National Bank	Seattle-First National Bank
Crocker-Citizens National Bank	Security Pacific National Bank
First National Bank of Chicago	Texas Commerce Bank
First National Bank of Dallas	United California Bank
First National Bank of Oregon	U.S. National Bank of Oregon
	Wells Fargo Bank

Savings and Loan Associations and Mutual Savings Banks

Gibraltar S. and L., L.A.	Prudential Mutual Savings Bank, Seattle
Old Stone Bank, Prov., R.I.	Washington Mutual Savings Bank, Seattle

Insurance Companies

Beneficial Standard Life	Prudential Life Insurance Company
Equitable Life Insurance Company	Standard Insurance Company
New York Life Insurance Company	

# Alaska Pacific Bank

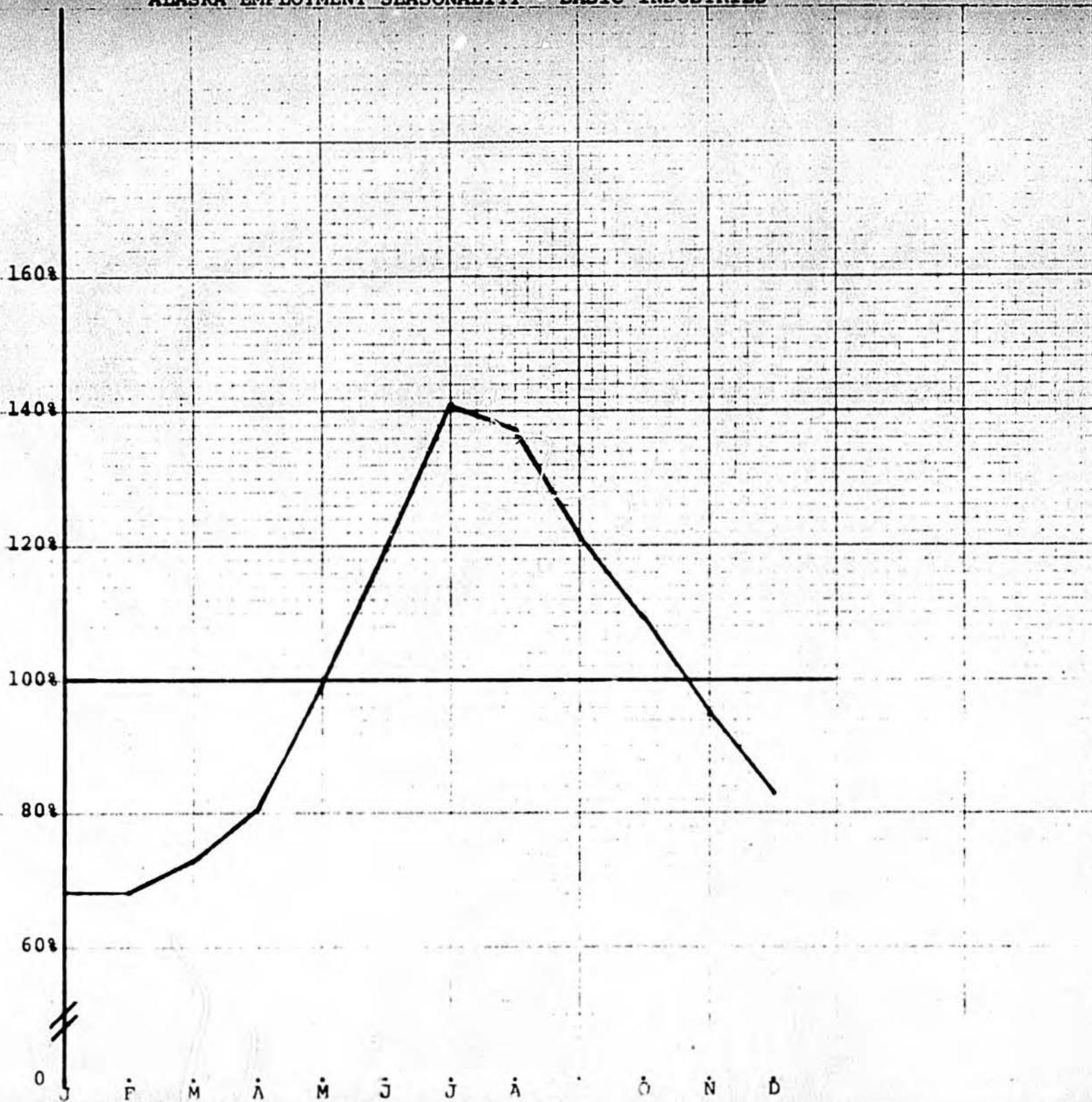
Working Paper #7

December 16, 1976

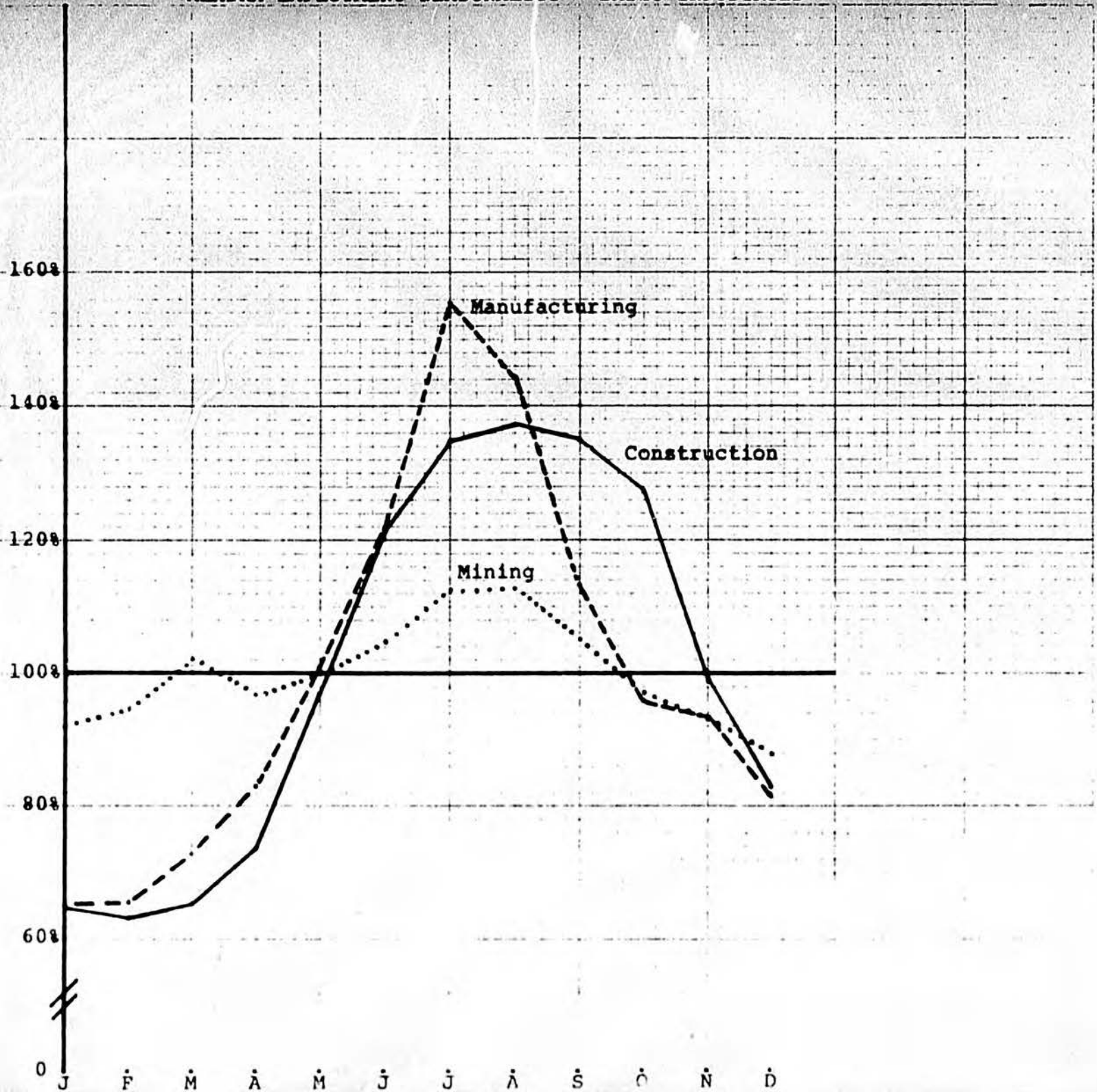
## ALASKA EMPLOYMENT SEASONALITY

In compliance with the State Investment Advisory Committee's request, attached are graphs depicting Alaska's employment seasonality by industry and region and a table with comparative cost of living information.

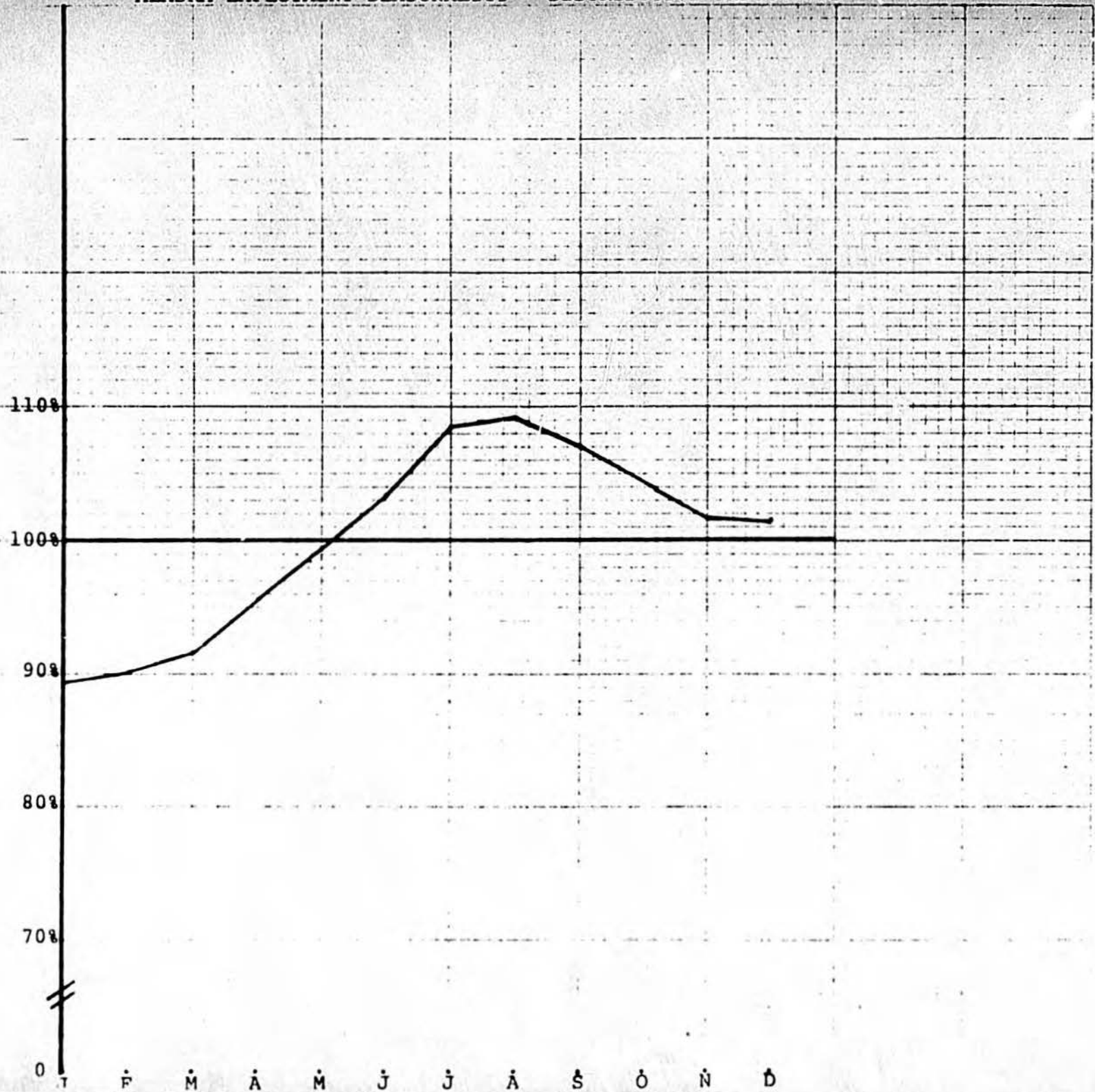
ALASKA EMPLOYMENT SEASONALITY - BASIC INDUSTRIES



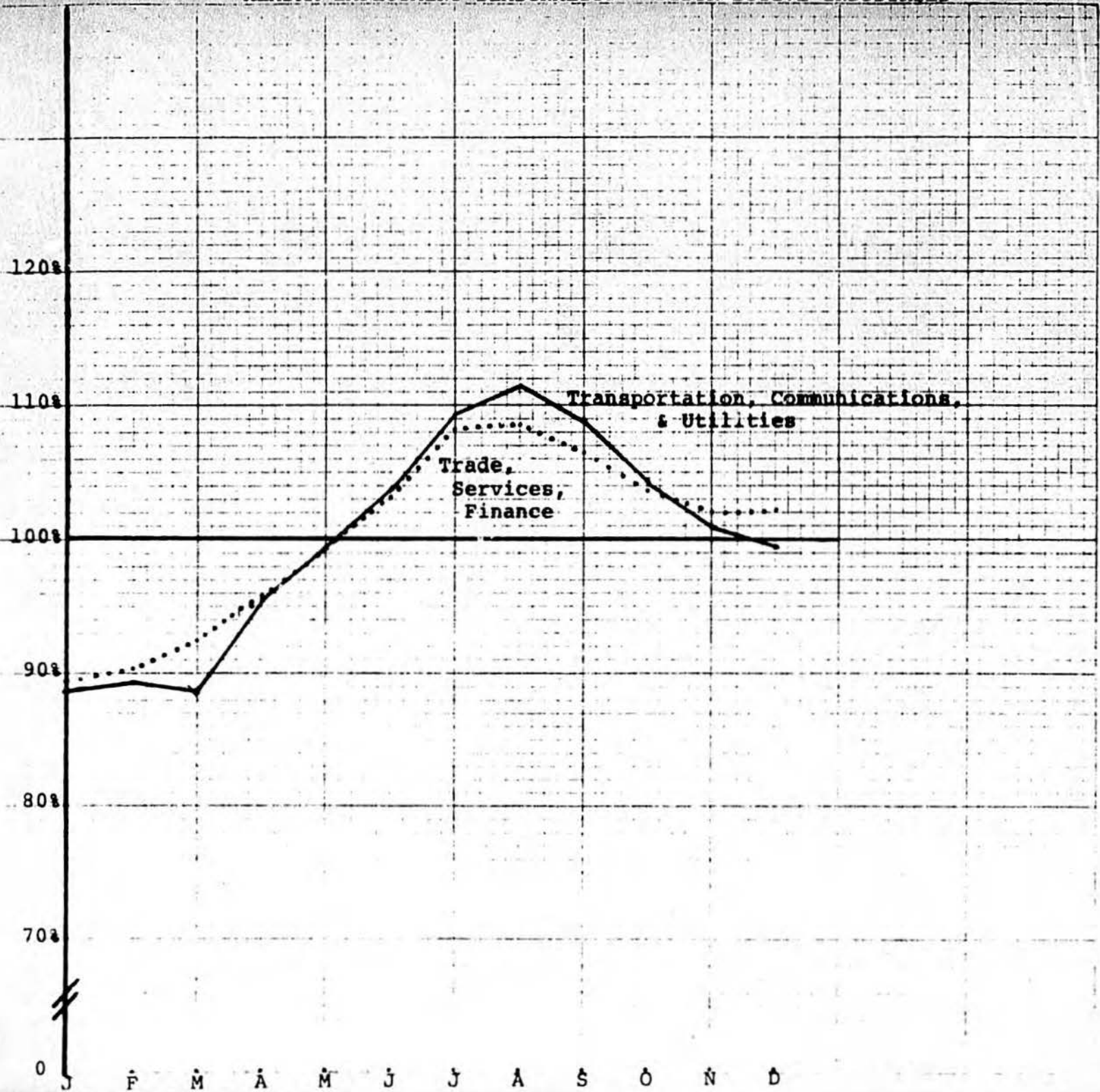
ALASKA EMPLOYMENT SEASONALITY - BASIC INDUSTRIES



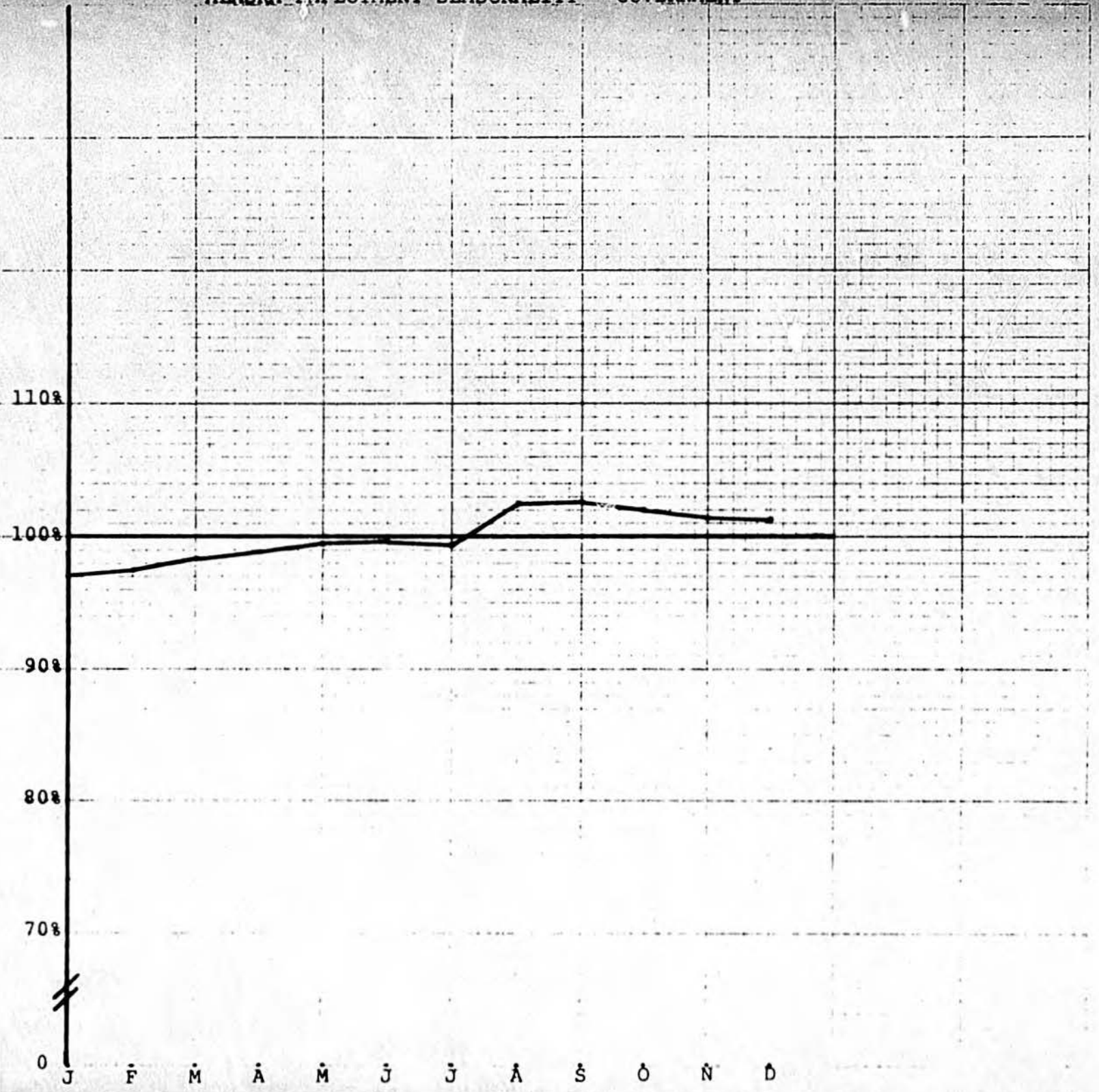
ALASKA EMPLOYMENT SEASONALITY - DISTRIBUTIVE INDUSTRIES



ALASKA EMPLOYMENT SEASONALITY - DISTRIBUTIVE INDUSTRIES

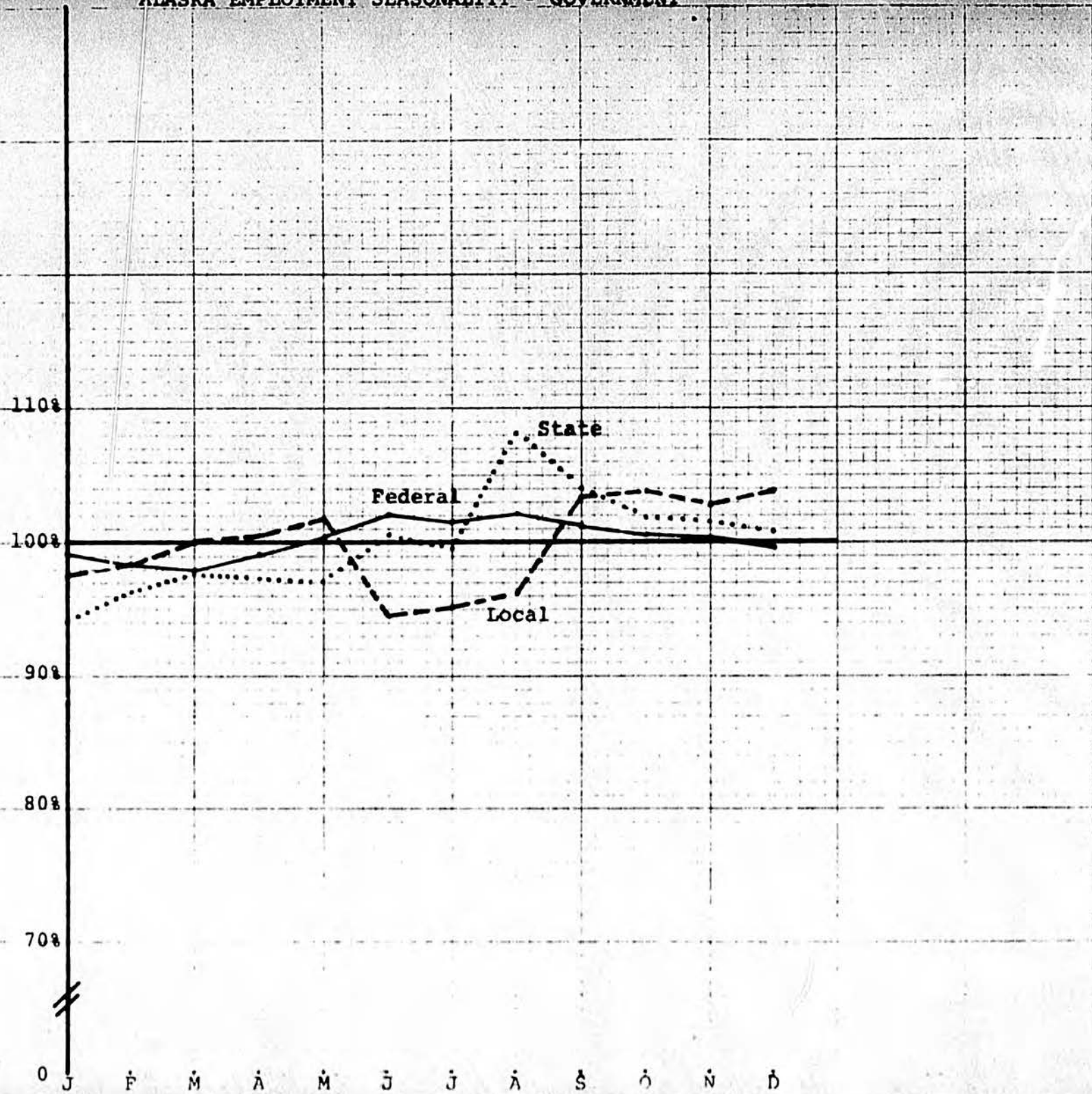


STANDARD TIME ZONE CHARTS

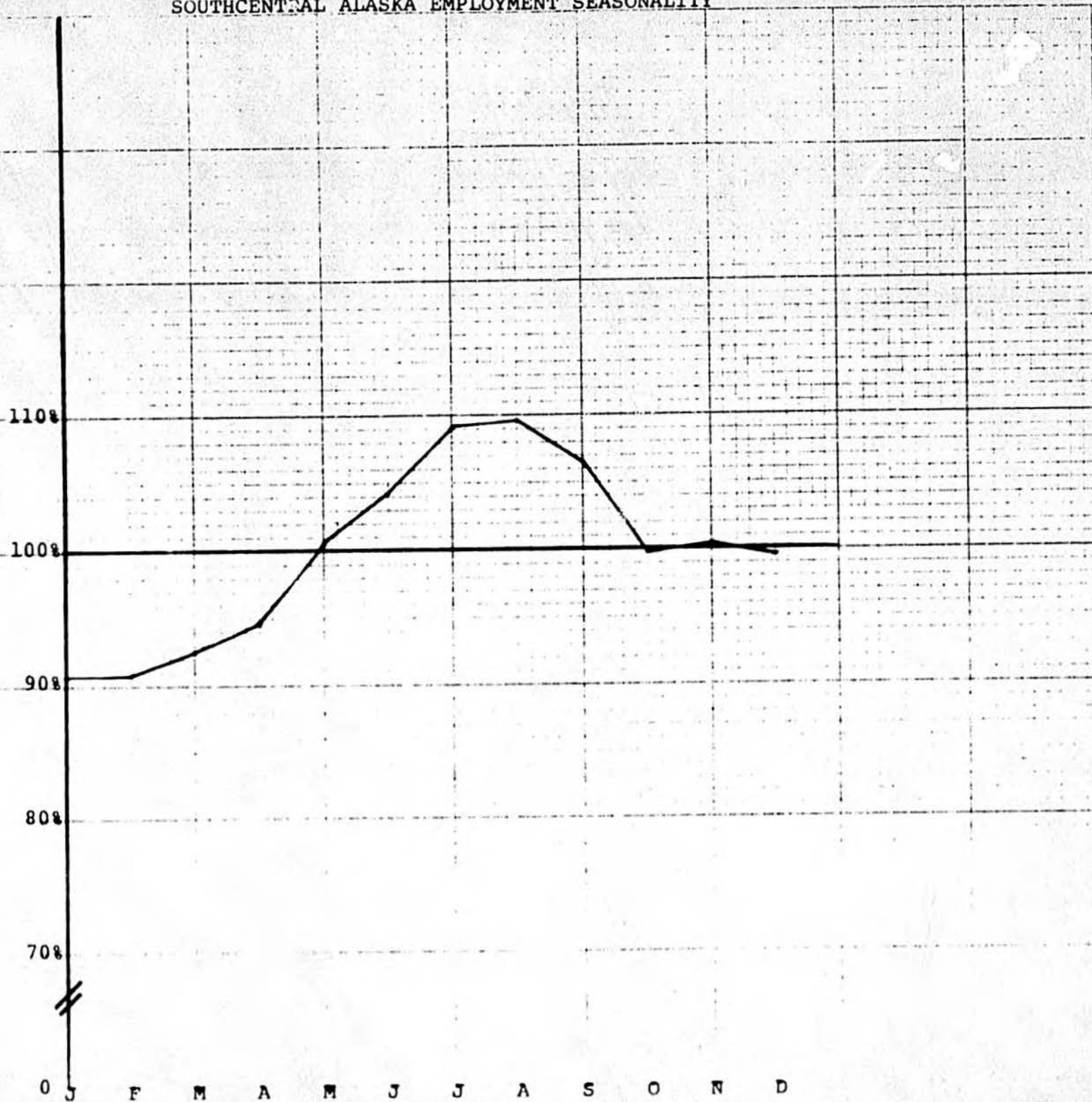


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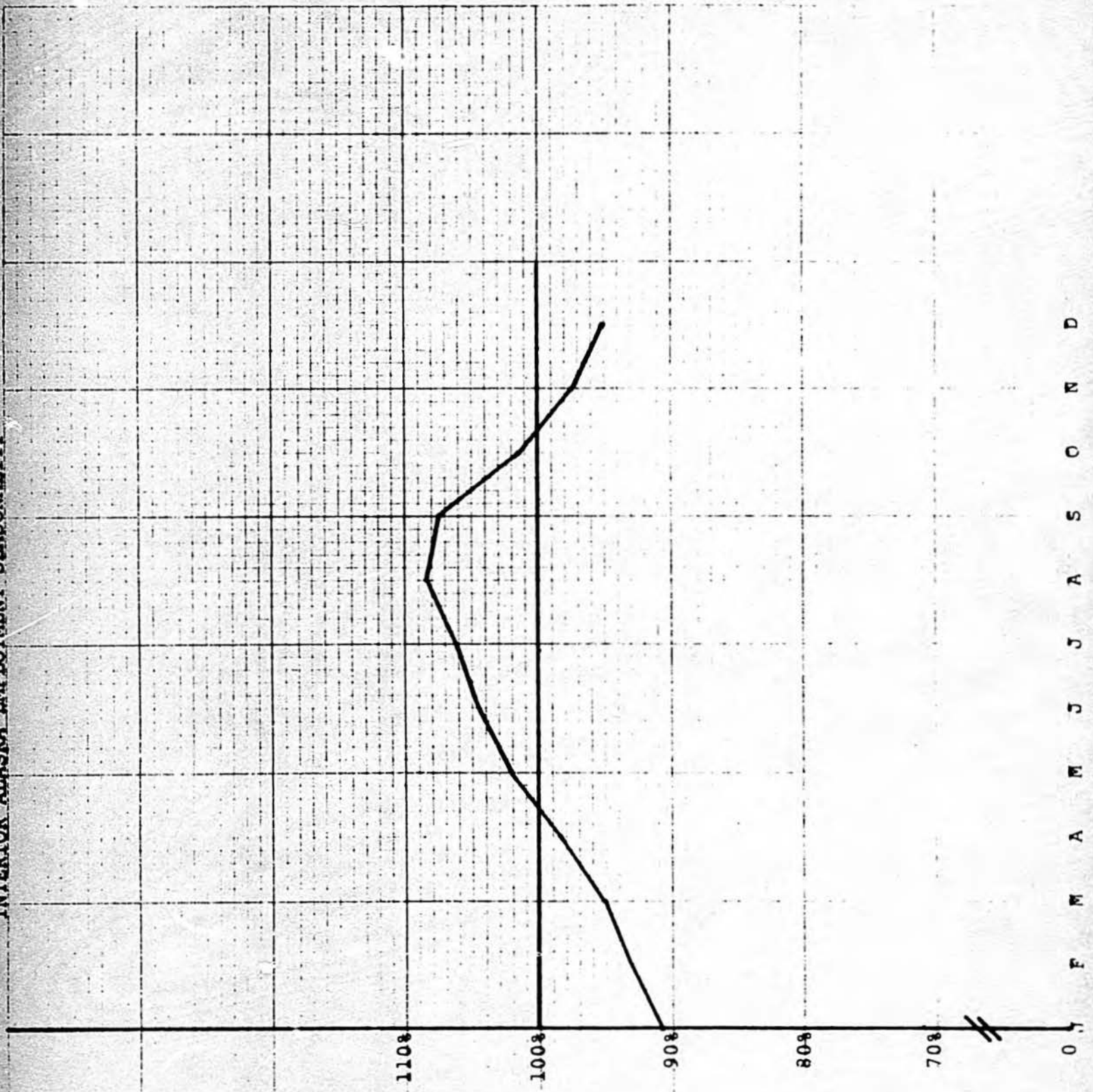
ALASKA EMPLOYMENT SEASONALITY - GOVERNMENT



SOUTHCENTRAL ALASKA EMPLOYMENT SEASONALITY

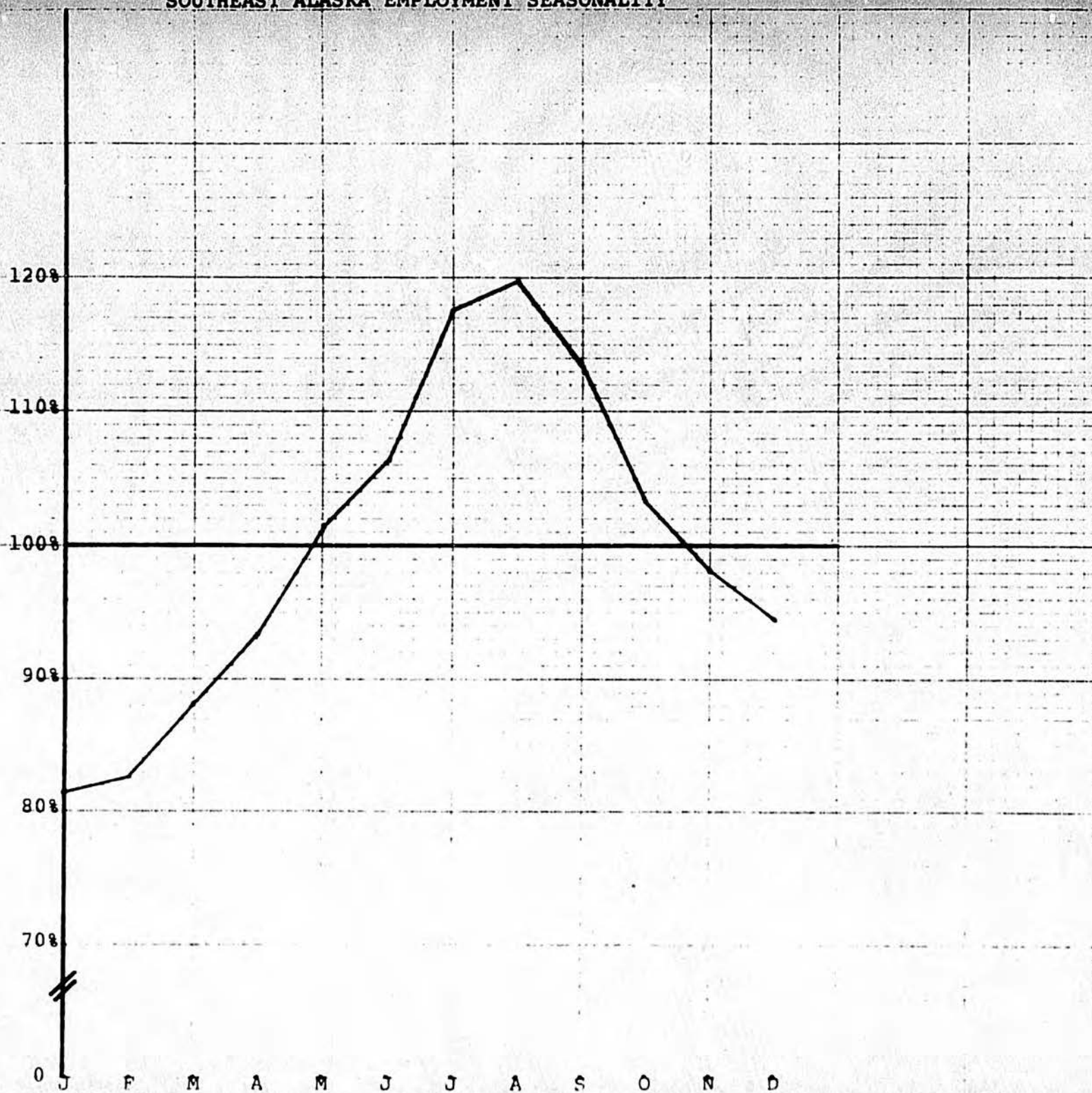


INTERIOR ALASKA EMPLOYMENT SEASONALITY

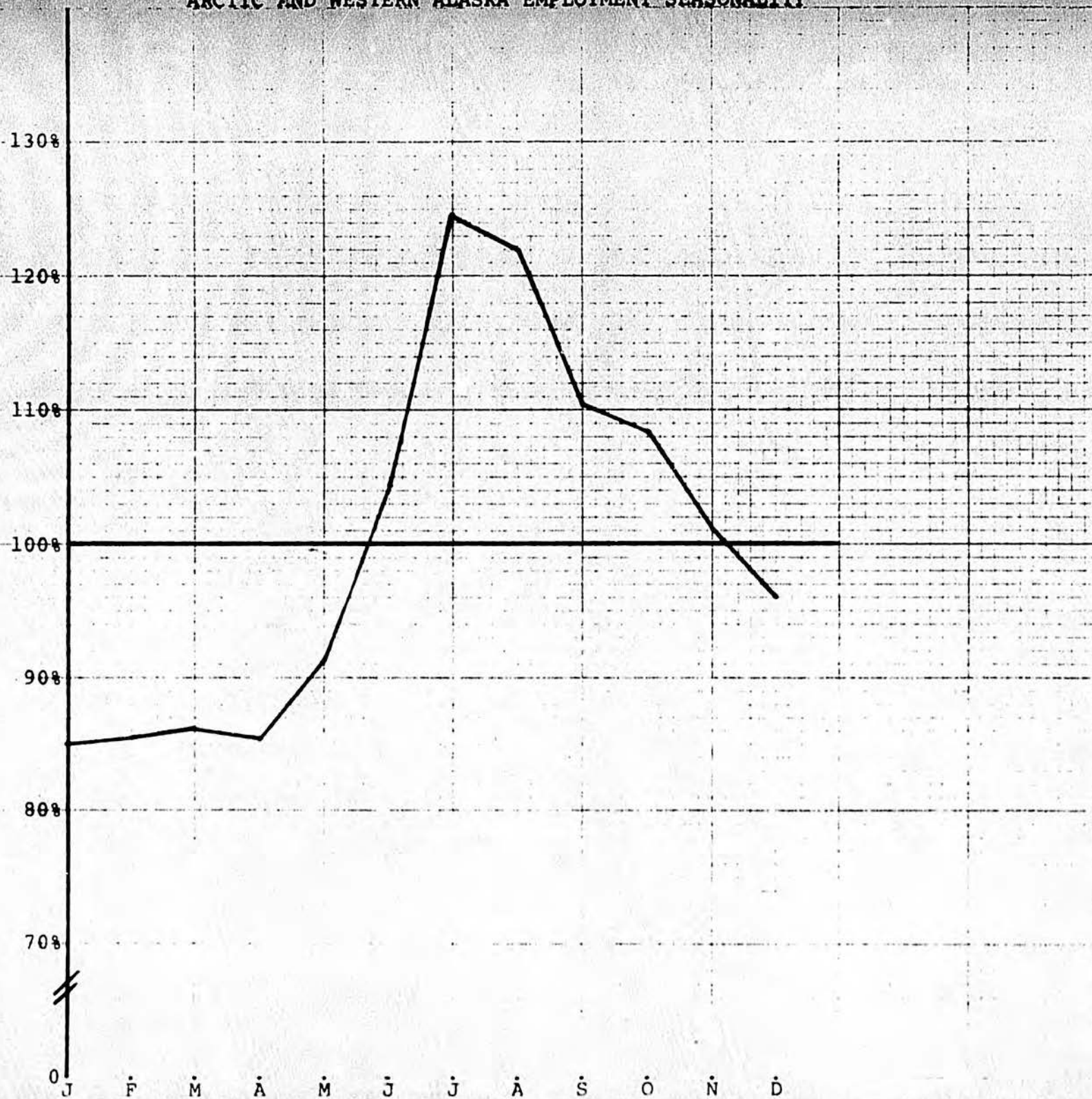


F M A M J J A S O N D

# SOUTHEAST ALASKA EMPLOYMENT SEASONALITY



# ARCTIC AND WESTERN ALASKA EMPLOYMENT SEASONALITY



# AlaskaPacificBank

## COST OF LIVING DIFFERENTIAL

Approximate cost of living differences between Anchorage, Alaska, and other cities are estimated below. Actual spending patterns for individual families, however, will vary in Alaska because of life style changes; therefore, the data below should be regarded solely as general approximates.

CITY	PER CENT MORE SPENT BY ANCHORAGE FAMILY
Atlanta	41%
Baton Rouge	38%
Boston	12%
Chicago	27%
Cleveland	28%
Dallas	37%
Denver	37%
Detroit	28%
Hartford	22%
Honolulu	10%
Houston	38%
Kansas City	33%
Los Angeles	29%
Minneapolis	34%
New York	14%
Philadelphia	28%
Portland, Maine	30%
San Francisco	22%
Seattle	25%
Washington, D.C.	29%
U.S. Urban Average	31%

Based on information supplied by the U.S. Department of Labor, Bureau of Labor Statistics.

# Government growth crowds out investment

## European studies show the adverse impact of large public outlays

"I tend to feel that an over-large public sector is a sign of incipient decline," says Edmund Stillman, director of Hudson Institute Europe, an independent Paris-based affiliate of Herman Kahn's U.S. think tank. This view arises from ongoing research led by Hudson economist Richard Ensor. Hudson's findings tend to show that overall growth is the lowest in countries where the government sector is largest. That raises the strong suspicion that large and growing

by the expanding government sector in Western industrialized countries has been massive—cutting attainable growth rates by as much as one-third in the past 15 years.

A major reason government grows rapidly is that higher public spending always proves effective as a short-term cure for recession. But since the level of public spending seldom falls after recovery gets under way, a ratchet effect comes into being. The long-term result, according to Alexandre Lamfalussy, chief economist for the Bank for International Settlements, is that "in many advanced countries, taxation seems to have approached or exceeded the limits of economic efficiency."

pendence, and welfare—are the most wasteful form of government expenditures, both Smith and the Hudson group found that such payments had far less impact on differences in growth rates than did government spending for goods and employees. Bacon and Eltis lay far less emphasis on transfers than on the huge growth of government payrolls, and Smith stresses the fact that transfers do not actually tie up productive resources in the production of socially designated services. This distinction has important implications for public service employment proposals in the U.S.

Wage-push inflation may provide an important warning signal that government is growing too fast. When expanded

The larger the public sector of an economy, the slower its real growth



public spending actually causes slower economic growth.

The Hudson findings are one example of an impressive body of European research pointing to this same conclusion. In Britain, which has had slow growth for the last 60 years, two Oxford economists, Robert Bacon and Walter Eltis, have documented the case against a growing government with impressive attention to the detailed impact of specific public policies on the industrial structure. Similar implications have also emerged from a study by David Smith, principal research officer in economics at England's National Westminster Bank. And the Organization for Economic Cooperation & Development is preparing a study on the same subject for publication early next year.

The new studies differ in detail, but in general they conclude that the toll taken

Three other major themes of the new studies:

**Differences in the size of the government are not the only factor explaining differences in growth rates among countries.**

Any economy's "natural" growth rate depends basically on the growth of its labor force and the productivity of its workers. Both vary over time and between countries because of a variety of cultural, technological, and other factors, of which the size of government is only one. Still, David Smith's study estimates that differences in public-sector size accounted for fully 35% of the overall variation in growth rate in his 19-nation sample during the 1960s.

**Not all public programs are equally harmful to growth.** Though the traditional view is that transfer payments—such as social insurance, unemployment com-

public services are provided freely, the principal test of their desirability is whether people will pay the resulting taxes without demanding higher wages. "Those who control public expenditure create the public sector that they believe to be correct," Eltis says dryly. "But the workers have shown an unwillingness to pay for the level of services that public officials deem appropriate." He cites the increased militance of British labor that began in the mid-1960s as a vivid example of the hazards of an overblown public sector.

The mechanism by which a larger public share leads to slower growth is to be found in shrinking profits and falling investment—a gigantic non-monetary "crowding-out effect." Since there is a long-run relationship between an economy's stock of capital equipment and the level of output it can produce, any given

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growth rate requires that a certain proportion of total production must be invested in new capital goods. If, for instance, it took \$3 worth of capital investment to produce \$1 worth of annual output, then a 4% rate of growth in productive capacity would require that 12% of each year's net national product be set aside for new investment. If the higher taxes resulting from higher government costs eat into profits and private savings to the degree that investment of his 12% proportion becomes impossible, growth will fall below the 4% rate, even if labor force and productivity growth remain favorable.

**The Link.** The Hudson group feels that it has statistical evidence of a significant causal relationship between a rising income share for public spending and a lower share for private investment. This linkage is stronger in some countries than others, Hudson's Stillman concedes, and in some cases the slow growth of an aging economy could cause higher

### Public spending grows because it is a short-term cure for recession

public spending, rather than vice versa. Nonetheless, he believes that "nonmarket spending, (as opposed to investment in self-supporting public enterprises) is the preemptive factor in overall economic growth."

The institute's *Hudson Letter* recently estimated the degree to which specific economies have been hurt by the rapid growth in government over the past 15 years. For Denmark and Sweden, the attainable growth rate has been cut by 1.3 to 1.5 percentage points; for Canada, Finland, Germany, and Britain, about 0.8 points; the other European members of OECD are assigned reductions of 0.4 to 0.5 points. France, which does not appear to have enlarged its public sector share, is the exception. Smith has arrived at similar estimates. He suggests the rule of thumb that "each 5% increase in the share of disposable income absorbed by state consumption implies a 1% drop in the growth rate."

Bacon and Eltis have focused on the British experience, and believe that 1966 marked a costly turning point for that nation. Government responded to balance-of-payment difficulties with a plan to slow the growth of government purchases in order to free resources for use by industries that export or compete with imports. But it did not provide the proposed additional stimulus of a devaluation, and it also shelved a long-range economic plan to stimulate industrial expansion. It was in this offhand fashion, the Oxford economists say, that Britain's economic structure was nudged fatefully in the direction of rising public-sector costs. Without the encouragement of either strong export markets or the

industrial expansion targets of the discarded national plan, business cut back on private investment. Meanwhile, government departments steamed ahead toward employment goals that had been based on the assumption of a stronger economic recovery.

**Employment.** Despite recurring attempts to shore up the private economy, a spiral of rising public sector payrolls and falling private investment took hold. "Over the period from 1966 through 1974," Eltis notes, "the market sector was losing 175,000 jobs per year, and the public service sector was adding perhaps 120,000 per year. That means a smaller number of producers of marketable outputs in the private sector has got to support a larger number of tax-supported public employees."

Inevitably, taxes rose sharply. Amounting to nearly 30% of earnings, the average British worker's tax burden is now proportionately higher than that of a bank manager or university professor in 1963. And deficits have also mounted.

The point is not that public services should be eliminated, but that either their growth must be kept in balance with private output or people should be prepared for a growth slowdown. "As per capita incomes rise," Bacon says, "you would expect people to be prepared to give more of their own consumption to make room for public consumption. I think Sweden, prior to the latest election, was an example of this."

In fact, the Scandinavian countries, with their smaller, relatively homogeneous populations, have generally done a good job of basing public-sector expansion upon the agreement of union leadership to accept a fair share of realistically estimated costs. In England, on the other hand, discipline in the labor movement and accuracy in public-sector cost projections have both been lacking, according to the account in Eltis and Bacon's new book (*Britain's Economic Problem: Too Few Producers*). From 1966 to 1970, the public sector's pretax income rose by more than 15% as a ratio to that of the market sector. The consequence of the higher taxes that resulted was "nearly universal pressure for wage settlements in excess of 10%, at a time when the inflation rate was much less than this." Soon enough, of course, price movements had to catch up; by 1970 inflation was nearing 10%. And with government continuing to expand employment almost any time workers became available, the process accelerated. Consumer prices rose 16% in 1974 and more than 24% in 1975. Ironically, all of this occurred at the same time that British industry had succeeded in shaking off decades of apparent decline, raising annual productivity growth from 2.2% in the 1950s to 4.2% since 1961. Unfortunately, the balance had been

50-2A  
1  
tilted too far—instead of faster total growth, a shift in resources to the public sector was the only result.

**Resource allocation.** Without having studied the British case in detail, American growth theorists are agnostic about the contribution that wage-push inflation has made to declining rates of investment. While conceding that such inflationary pressures can be one source of profit reductions, particularly in an economy as open to low-cost import competition as Britain's, Robert M. Solow of the Massachusetts Institute of Technology feels that the inflation and growth problems may proceed independently of each other. "Workers always want more take-home pay and more public services," he says, "whenever they can get them."

### Growth depends on keeping public services in balance with private output

As for the slow growth problem, Solow notes that even without inflation, the public sector would take an expanding share of total resources in any case where policymakers continuously used fiscal stimulus to maintain relatively full employment, while relying on tight monetary policy to restrain occasional inflationary pressures. Even without wage-push, "you would automatically get a shift in the composition of output in favor of government purchases and away from interest-sensitive activities, such as private investment," says Solow, who is considered to be the ranking growth theorist in the U. S.

For the U. S., the immediate question raised by the new studies is over the wisdom of the public employment programs as a cure for high unemployment. Solow concedes that "the Bacon-Eltis argument could hold against a large public service employment program on an ongoing basis." Most American economists tend to feel comfortable only with relatively small public service employment proposals that either disappear or shrink in size whenever unemployment reaches low levels.

Thus far, it would appear that U. S. politicians will not repeat the excesses of their British counterparts in both the Labor and Conservative parties. Of the two Presidential candidates, Jimmy Carter has spoken strongly in favor of job creation efforts. But he has said that if tax-receipt gains lagged behind his projections, he would slow down the growth of social service programs.

Meanwhile, Eltis, who is spending the year as visiting professor at the University of Toronto, is watching from his post across the border. He says: "Presumably, your American experts have looked carefully at the tax consequences of the proposals they put forth. If not, it's entirely irresponsible." ■

INTERNATIONAL ECONOMICS



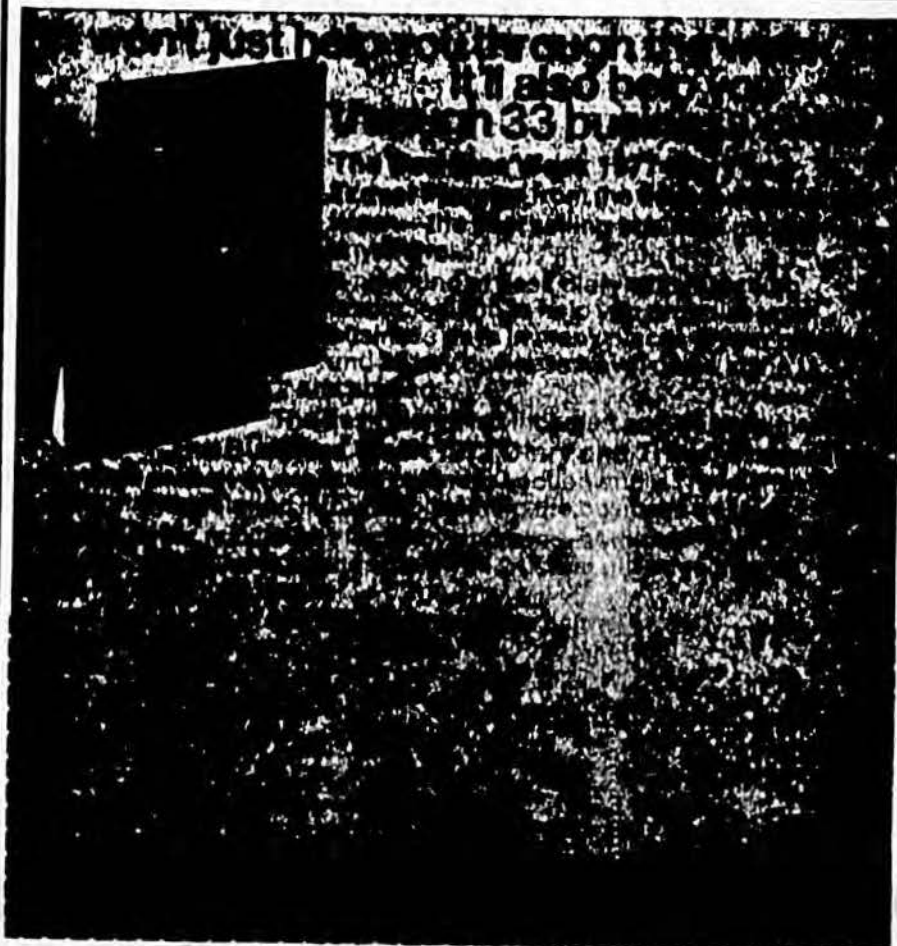
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# The Alaska Series Special Reports For Management

THE ALASKA "PERMANENT" FUND"

(billions in public policy)

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The following report is the first of many reports which will follow policy developments of the "Alaska Permanent Fund." The first report deals with emerging ideas and concepts in the executive and legislative branches concerning the future management, goals, and the problems of such a multi-billion dollar fund.

Forthcoming reports will provide a background and history of the permanent fund, providing some background for key policy areas where Alaskans have problems with a "fund concept," and also will provide some comparisons with other similar funds and projections relating to the ultimate potential of the Alaska fund.

April, 1977

The State of Alaska may hold an estimated \$8.6-billion in surplus revenues by 1985. Required shares of oil and other resource revenue accumulating in the state's new Permanent Fund is expected to reach as high as \$7-million by 1985, while an additional \$2.6-billion balance is projected to accumulate in the state's general fund.

The \$8.6-billion assumes no new dramatic oil discoveries, or the leasing of potentially rich state owned offshore areas, such as the Beaufort Sea (adjacent to Prudhoe Bay).

Alaska faces difficult tasks in handling the growing excess revenues of the general fund in relationship to the state budget, and the growth of government, and also in setting up and managing the Alaska Permanent Fund.

However, it has now become obvious that the Permanent Fund is in itself one of Alaska's richest resources, and one which could have a strong relationship to future development in the state. It is further likely the Alaska Permanent Fund will accumulate so much capital that a significant portion of its investments must go outside the state for investment at "high but safe" returns, while the remainder will be made available through a variety of investment and consumer-loan programs within Alaska. However, serious philosophical issues will be generated around how the fund is developed, who controls the fund, how remote management should be from direct control of elected officials, and fund infringement into domains of banking.

## THE ALASKA PERMANENT FUND IN PERSPECTIVE

Unlike many of his counterparts in other states, the Alaska policy maker has a distinct distaste for special funds in government. In 1955 the people of Alaska drafted a modern and highly streamlined state constitution, and one of its hallmarks was a prohibition against dedicated revenues. The new constitution created a highly centralized general fund concept, into which all revenues would flow, and out of which all expenditures would be budgeted. However, the prohibition excluded not only troublesome dedicated funds --funds where the revenue was tied to some particular spending function-- but also broadbased funds for the purpose of investing excess revenues.

The writers of the constitution did not anticipate the rose-colored world of excess revenues, and even after the entry into that charming world in 1969 Alaska policymakers were hesitant to tamper with the old prohibition for fear of creating a hazy and undisciplined line, one which would keep on moving, leading them back into the world of dedicated funds.

In 1976 a constitutional amendment modified the constitutional prohibition to allow a broadbased fund to accumulate (a minimum) of 25% of all incoming oil and other resource revenue from royalties, fees, land rents, and other bonus payments.

The only restriction on the permanent fund was that monies not be spent on the general operations of government. The funds only dedication was to maintain its principal and produce some income. The broadness of the amendment was also linked to another Alaskan "quality" --one of being double cautious not to "practice general law in the constitution."

In enacting the amendment it appears lawmakers did not see the fund as simply a savings account, nor did they see it as a super-development bank. At the point of initiation many lawmakers viewed the constitutional amendment, and the fund, as first simply a means of excluding a certain percentage of excess revenue from the province of normal operational state spending. The alternative structure created was left to the future as to apportionment of concept of the fund between trust fund, development bank, and source of small consumer loans for individual Alaskans.

#### BEGINNING WORK ON THE PERMANENT FUND

The legislature and executive are now just beginning the task of filling-in where the constitutional amendment left off. The amendment is intentionally broad, including almost anything that preserves the principal and earns some return.

The refined concepts of the permanent fund were left to "general law," and also intentionally subject to the revisions of future legislatures.

The 1977 legislative session will see a number of permanent fund bills introduced, and these bills will frame some of the permanent fund issues. However, action on the permanent fund will be delayed until the 1978 session, with the permanent fund becoming the subject of a complex hearing and public seminar program during the legislative interim. Portions of the interim effort may be on a cooperative effort between the legislative and executive branches (the seminars ??), despite partisan differences. It is also likely that hearings will use complex TV-coverage via-satellite, with two-way communication for citizen participation from even remote locations.

Additionally, the legislature may approve a number of television public affairs productions, along the lines of "60-minutes" in order to project some of the conceptual issues to the public prior to hearings.

#### LEGISLATION GOES INTO THE HOPPER

Some of the emerging issues surrounding the permanent fund might best be discussed by discussing one of the legislative proposals. On March 3rd, Governor Jay Hammond intorduced HB-298 " . . . relating to management of the Alaska Permanent Fund . . . ." On the same day the House Special Committee introduced HB-300 providing for the same, and being very close to the concepts of HB-298 except for asserting legislative perogatives in fund management.

The governor's bill was the work of the State Investment Advisory Committee, and consulting work of Price Waterhouse & Company (Washington D.C.), and White, Weld & Company, of New York. A great deal of the consulting work appeared to revolve around the "development bank" concept, and the method of operation of other principal funds in the world --ranging from the World Bank to the Alberta Cultural Heritage Fund.

#### A "SUPER BANK" IN OVERALL FORM

The governor's HB-298 casts the permanent fund in the form of a "super bank" with a great deal of autonomy from the operations of the governor and the legislature.

The legislation creates an ALASKA PERMANENT FUND CORPORATION, a public corporation of the state, and while the corporation would be

be lodged within the State Department of Revenue, it would have an independent legal existence of its own. The serpateness tends to follow the World Bank pattern, providing an insulation from the political structure insuring loans will be based on sound economic criteria, even though social and many geographic-political factors will be weighed. In contrast the Alberta Fund is operated in a conventional government manner by their equivilant of our Department of Revenue.

The new legislation provides for 50% of all mineral lease rental income, royalty income, and bonus payments go into the permanent fund, an increase of 25% over the base 25% required by the constitutional amendment. It should be noted HB-300, the legislative version of the permanent fund, would provide that 100% of all bonus payments go into the fund. Additionally, it should be noted that oil and gas (and mineral) severance taxes "do-not" go to the permanent fund, but rather to the general fund. Further, due to the wording of the constitutional amendment, and the legislative history of the resolution, it is doubtful if severance taxes can constitutionally ever be put into the fund.

The constitutional resolution was specifically amended in the senate to exclude severance taxes, creating a definitive negative history that the legislature meant to exclude severance taxes, and other taxes, leaving the legislation only the future option of putting non-tax income in the fund. The action was an example of Alaska's caution in dedicating funds, with the lawmakers wishing to be sure a future legislature could not get "carried away" and catch the state in the mire of dedication of revenue.

SUPERBANK PURPOSE --FUDGING TOWARD FLEXIBILITY

While the current legislative forms of proposed management for the permanent fund are cast in the overall mold of "superbank," the goals and purposes fudge considerably towards and mix of "trust for the future" and current consumer benefits.

The purposes clauses of the legislation tends to shy away from any one concept, such as trust, development bank, or consumer bank. The bill's preamble reads: "The purpose . . . is to provide a means of conserving revenues from mineral resources . . . to the benefit of present and future generations of Alaskans. The revenues . . . shall be invested in income earning investments which will provide further benefits to the present and future generations of Alaskans.

The preamble further speaks to the diversification of the Alaskan economy by investments in renewable and non-renewable resources, smoothing cyclical patterns of growth in the Alaskan economy, encouraging participation of private capital, promoting . . . capital for community purposes, and supplementing private investment.

It appears that the State Investment Advisory Committee considered the more definitive possibilities of trust or development bank, and specifically opted to soften the declared purpose of the fund. Alaska is unique in relationship to its proposed permanent fund, because while Alaskans perhaps want a measure of control over their economic destiny --want a measure of development-- they are aware that the great asset of Alaska may be its small population divided into a high margin of excess wealth.

COMPROMISE TRUST/DEVELOPMENT BANK/CONSUMER BANK

The administration and legislative bills both option for a split concept in the permanent fund, probably representative of the multi-faceted view which most originating lawmakers and the public have of the permanent fund.

The legislation provides the fund "must" invest 40-per cent of the permanent fund in investment grade securities, a bone for the trust fund or savings account principle, and insuring a maintenance of income for future generations of Alaskans. Since the interest from the fund goes into the general fund, or at least can or cannot go into the permanent fund at legislative option, the earnings of a steadily growing 40 per cent could stand to back-stop general Alaska government operations at some future point should the government find itself in revenue jeopardy from exhaustion of tax-paying natural resources.

Second, the proposed legislation provides that not more than 30 per cent of the fund should go to provide a reasonable proportion of longer-term investment capital for financing expansion of productive enterprises, for which capital on reasonable terms is not available --hence, 30% development bank.

Third, the fund may go not more than 30 per cent for investment capital needs of community investment projects of municipalities (utilities) and private dwellings --hence, 30% consumer bank. It should be noted that Alaska is already deep into other consumer loan programs, such as the nation's number one student loan program, an extremely broad vets loan program, a number of fisheries loan programs, and others.

#### TOWARDS A BANK --THE POWER TO "BARROW"

The apportionment of money perhaps allocated a disappointing 30 per cent to development bank operations of the fund, but the pending legislation also confers the power to raise capital and barrow against the assets of the permanent fund --the power to expand the capital base of the development bank portion of the fund. Hence, the fund twists back from pro-trust in the larger 40% allocation of money to pro-superbank, with the legislation likewise conferring the power to grant debt guarantees, in addition to debt, in the case of the 30 per cent development bank portion of the fund.

#### THE STRUCTURE OF FUND MANAGEMENT

The overall policy board of the fund, called the PERMANENT FUND POLICY BOARD, would consist of the Commissioner's of Revenue and Commerce, and seven other members appointed by the governor. The seven gubernatorial appointments must be Alaska residents and not state employees. Terms would be four years and the issue of legislative confirmation remains a "difference" between the legislature and the executive. Further, members would only be removable for "cause," a familiar feature in boards and commissions of other states, but one foreign to the Alaska system where virtually all appointees serve at the pleasure of the governor. It is possible the policy board may end up serving "at the pleasure," based on the logic that lawmakers want responsibility firmly fixed on the governor, and that any "removal" from the policy board of a multi-billion dollar fund would be bound to attract thorough press scrutiny. The chairman of the policy board would be the President (actual manager) of the corporation (although he would not be a voting member).

The policy board would be charged with the broad policies of investment, with selecting the INVESTMENT COMMITTEE (the next layer of management), relations with the legislature and public, reviewing investments and performance, and providing for reports and audits of the fund. The policy board would adopt a five year plan, revised annually, and do the sectorial analysis of the Alaskan economy in order to guide investments into areas of economic need.

Beneath the policy board would be the PERMANENT FUND INVESTMENT COMMITTEE, consisting of the President (also Chairman of the Policy Board), who is appointed by the policy board and would serve at its pleasure, and four other members serving at the pleasure of the policy board.

The investment committee has sole responsibility for all investments, with the concept being one of "seperation and balance" of powers, with the investment committee not interfering in the overall policy decisions, and leaving that body to handle external political and special interest pressures. In the same vein the policy committee may not interfere in the individual decisions of the investment committee on individual loans, with the principle being insulating that investment committee from the pressures fielded by the policy committee.

Under the two board system the President --the executive manager of the fund-- is the link between the policy board and the investment committee, with the President being non-voting chairman of the policy board and a voting chairman of the investment committee. The concept is also one of fixing responsibility on the executive president.

The two board system points towards a procedure where the investment Committee would receive detailed proposals, and the staff produce a detailed analysis and recommendation free from external pressure.

The superbank management operation would have a great deal of discretion beneath the broad guidelines of the policy board. The staff could probably exercise a great deal of judgement in terms of providing all of the debt on a project, participating together with private capital, obtaining an equity share, or perhaps working with equity in such a way as to support offerings of local securities, in providing guarantees of private capital, and with other authorizing legislation, perhaps participate in an arrangement where interest rates are subsidized (the interest subsidy coming from a legislative appropriation in order to maintain the integrity of the permanent fund).

It should be remembered that the fund probably will be able to: 1) barrow to expand its development bank capital, 2) sell its securities and debt to other mortgage markets to recoup base capital, and 3) make investments in financial intermediaries who may be better able to manage small investments deemed to be too small to be under direct supervision of the permanent fund investment corporation.

The legislation as presently written follows normal development bank philosophy in declaring that the state corporation would never seek to control or manage a venture, regardless of financial condition. However, it is likely through its position the state would probably be aware of trouble on an early basis, and be able to 1) insist on various kinds of audits, 2) offer technical assistance, and 3) insist on timely consulting assistance and consulting management.

### CONFLICTS OF INTEREST AND BOARD MAKEUP

The sophisticated superbank structure makes interesting drawing on organizational charts, but poses some serious issues in a state as small as Alaska.

Obviously the control of a multi-billion dollar corporation offers a source of great power, and likewise attracts greed from a multitude of special interests. One has only to look and see who sought to influence the State Investment Committee in their deliberations of the fund --the bankers.

The question will be posed in legislative scrutiny: "Where do we find people with knowledge and expertise to put on the policy board and investment committee who do not already have 'built-in' conflicts?" In larger states we might well find an abundance of people who have garnered excellent financial management experience, but long since departed those "special interest" institutions for academic life, or work in some large and more distant industry, where one might have reason to think the individual did not one day expect to return to their old occupation.

For example, one can expect the Alaska banker to have immediate conflicts over what are "reasonable terms" in the market, or a banker might not have an immediate interest in a project, but his rival is a participant in the package, or perhaps it might be the bankers "friendly rival." The potential for subtle bias on both the policy board and the investment committee is very high. Compounding the problem is the fact in the small Alaska structure it will be difficult to find knowledgeable board members without conflicts, and that same smallness may dictate that bank-employees may have to be prohibited from serving.

Playing with the structure of the superbank is a fascinating mental exercise until the more human issue of "who serves and where do they come from" is considered. Its sort of like a government finding a good director of banking or an insurance commissioner, if they have expertise it is likely they came from banking or insurance, who they are supposed to turn around and regulate. On the flip side of that coin, with political appointments being a precarious occupation, those so chosen likely expect to one day go back to their respective profession. The conflict is one of general institutional bias of both past association and expected future association, all of which stands completely separate from the problems of actual "hard" conflicts within the investment community.

It is possible that legislative interest could at first run strongly towards the superbank double-board structure, but at the end of the game the legislature throw-in the towel and simply opt for a permanent fund as a sub-unit of the Department of Revenue, or as a separate agency.

We must remember that Alaska in general has a love affair with a tight and highly centralized executive, and a phobia generally running against independent boards, commissions, and executive officials. The concept is one of fixing all responsibility with the governor and providing no place for that executive to pass-the-buck. In Alaska the governor is not only the sole elected executive official, but with only a few rare exceptions he has "no" officials, boards, and commissions which do not serve at his "sole pleasure." The centralized system with maximum accountability on the governor has worked well in Alaska and breeches in the system are not easily made.

## A PROBLEM OF PUBLIC ACCOUNTABILITY

Another problem in structuring the fund is the accountability of permanent fund managers and policy makers to public officials, and therefore the public. The inter-relation of insulation from political and special interest meddling versus the need for accountability to the Alaska public stockholder is a difficult one.

The governor's proposed HB-298 puts the board on a staggered term appointment by the governor, but with removal only for cause, while the legislative bill requires "legislative confirmation," with removal also only for cause. There is a special set of constitutional problems in Alaska surrounding confirmation, which will be discussed later. However, it appears the governor's bill probably does not satisfy the issue of public accountability, since the policy makers and managers once appointed would not be accountable to the legislature, and only to a limited extent to the executive.

Consultants to the State Investment Advisory Committee recommended an elected Permanent Fund Policy Board as their way of solving accountability, but providing insulation from the legislature and executive (directly accountable to the public). However, a brief look back at Alaska's highly centralized structure (with no other elected administration officials except Lt. Governor), gives indication why this recommendation was not considered and simply would not "fly" in Alaska.

The next step is therefore confirmation of the policy board, providing involvement in the appointive process of both legislature and executive, but again Alaska's tightly-wound constitution presents some unique problems.

The Alaska Constitution grants confirmation power to the legislature for Department heads and certain other enumerated instances, but for years it was felt the legislature could provide by statute further offices to be required for confirmation. A 1975 Alaska Supreme Court decision has given the narrower view, again in line with Alaska's highly centralized executive concept, and there is some doubt as to whether confirmation of policy board members could be required if the corporation is a sub-unit of the Department of Revenue.

It is possible the legislature could set the Alaska Permanent Fund up as an entity in itself, virtually a department with corporate status, and therefore require confirmation of the President, and possibly the policy board. If the unit was set up under Section 26 of the constitution, which provides potential for exception from the straight-line executive accountability of the Alaska system (an appointive board with power of hire-and-fire over the departmental manager), then clearly the board would be available for legislative confirmation.

A third option which may be considered is to leave all policy board members serving at the pleasure of the governor, with or without the element of legislative confirmation. Such an option would make the governor publically accountable for their action in the Alaska tradition, with the protection of public questioning guarding against arbitrary removal of board members. In fact, in this day and age of public investigations, special prosecutors, public interest advocacy groups providing a special kind of public watchfulness, plus the scrutiny of the press, it is highly likely no other special protection and insulation for the fund policy board is needed.

## THE WORLD OF THE PERMANENT FUND

All manners of potential can be dreamed up for the permanent fund, especially those portions assigned to a development bank concept or the so-called consumer bank.

First, a word about the consumer bank which will be discussed further in a forthcoming Alaska Series report on the history and evolution of the permanent fund (as a guide to understanding the fund in Alaska). The consumer bank is that portion of the fund which the individual Alaskan, the lone citizen, has some reason to think he might call on one day. Second, it is that portion of the fund which might participate in funding a community enterprise, perhaps some recreation function, or a unique utility, or some such entity with which the public might identify as a substantial permanent fund benefit reaching them "as a group."

The Alaska consumer bank has a history in the \$900-million bonus money and a variety of legislation which followed setting up loan programs ranging from an extremely liberalized veterans home loan program, a student loan program among the most liberal in the United States, a number of fisheries vessel and enhancement loan programs, to a state Municipal Bond Bank, and others. Many of these programs utilized what was called "mandatory purchase," a feature whereby the loaning program qualified and approved the loan, and the Department of Revenue was required to buy the loan with state excess revenues (revenues from the \$900-million).

It is likely for practical and political reasons that the permanent fund will have to allow for a portion assigned to public community loans, and other consumer loans.

It is possible that the so-called consumer loans might be loaned to an intermediary better able to administer the smaller loans, or that an automatic purchase system be set-up with a certain percentage of the fund assigned for legislated loan programs.

In the category of development bank there appear to exist many potentials, and also many potentials for conflict. The fund can provide a valuable source of total capital, cooperating capital, equity capital, guarantees, and etc. However, how the fund operates will draw both the bouquets and brickbats of both business and banker.

How will the banker feel about equity and participating capital in projects by-passing their banks? How about potential competitors in a field in relationship to a project in which the fund is a participant. For example, Alaska was brewing no beer of its own, all was exported, but when Alaska tried to grant a tax exemption to a potential brewery, the state and the brewery were mired in litigation with competitors selling beer in Alaska for several years.

Obviously the banker and the managers of the permanent fund may differ greatly as to when private capital is, or is not, available, and whether terms are "reasonable."

The fund may provide a valuable source of participating capital for the Native Land Claims Corporations, especially the more viable Village Corporations who might find that the fund is a key source for expanding their capital to the point where the smaller village corporation is viable.

It would appear that the permanent fund will prove an invaluable tool in providing frontier capital in Alaska's sprawling rural areas, where there is an underdeveloped economy in the extreme. However, such zones also represent a risky area of investment, and poses a difficult conceptual point for fund policy concerning acceptable risk (and the rules of investment).

The native corporation became a source of capital for these same underdeveloped areas, but those corporations also have found: 1) they must balance their portfolio with viable urban investments, and 2) that regardless of available capital frontier enterprise in an almost economyless zone is extremely difficult. Simply adding an associated investor in the form of the fund will not change the fact that any business emerging in the high-cost rural zones of Alaska is going to be a high risk operation.

The fund policymakers will have to wrestle with difficult rules of investment, balancing such aspects as broad social, economic, and political profits, against higher risk and loss of profits and capital (on occasion), and perhaps to what degree the higher profit and more secure portion of the fund portfolio --in the trust sector or more profitable urban bank structure-- should be gaged to offset expected loss from the frontier areas.

Both bills as introduced into the legislature currently declare for applicability of prudent-person rule, which could pose difficulties as the fund is applied to frontier loans.

Nevertheless, despite problems of investment in Alaska sprawling rural areas, it is obvious that Alaska now possesses, in native corporation capital and the fund, two extremely valuable economic tools.

Ten years ago in Alaska there essentially were no economic tools, or real hope of development capital, for the underdeveloped rural areas of Alaska and the peoples who live there.

The permanent fund and native corporation also have interesting parallels. The native corporation is a private firm with a unique social base of stockholders. It is not only motivated for profits but also social profits (jobs, business, etc. in rural areas). The fund is government with a probable twist in management and structure towards the private. Government's usual goal is social, but in the case of the fund it takes on the usual private purpose of "profits." The two unique structures may make good partners and understand each other better than many observers think.

#### FUTURE PERMANENT FUND REPORTS

The permanent fund will become the subject of a regular and ongoing series of Alaska Series Reports. The Series will follow the fund during the legislative interim as special committee actions begin to mold the policy and philosophy of the permanent fund, and in the near future will issue two brief reports. One of those reports will simply provide historical background of the fund, such things as why Alaska avoided a fund in 1969 when it received the \$900-million, and the gradual evolution to the present broadbased fund. The purpose of a report is simply to provide a source for observers to perhaps understand why Alaskans will shape the permanent fund in certain ways. The second report will simply make some comparisons of the Alaska Permanent Fund with other world monetary funds, and also deal with some financial projections dealing with the monetary potentials of the fund.

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# The Alaska Series Special Reports For Management

THE ALASKA PERMANENT FUND

and

OTHER SIGNIFICANT WORLD FUNDS

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The following report provides a comparative review of other significant resource based monetary funds, and development banks throughout the World, in relation to the Alaska Permanent Fund. This report is the second in an initial three-part series dealing with the development of the Alaska Fund. This report discusses a cross-section of World Funds ranging from the handling of resource revenues by other U.S. states, to Arab nation oil funds, including European Development Banks, the World Bank, and classic regional development banks such as those of Mexico and Puerto Rico, and finally resource based funds, such as the Alberta and Venezuela funds, which have a kinship with the circumstances of the Alaska Permanent Fund.

The first Permanent Fund report dealt with crucial issues and options in the fund structure (April, 1977). The third report (June, 1977) will give a brief history of Alaskan attitudes toward government and "special funds," which likely will contribute to final shaping of the Alaska Fund. Successive reports will follow the actual development of the fund during the next several years.

May, 1977

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For the next year Alaska policymakers will be studying the potential philosophy, structure, and goals of the Alaska Permanent Fund. The 1978 legislature will be called on to give statutory definition to the fund, and that action will have a distinct impact on development, business and financial institutions, and the future economic and fiscal posture of the state.

In many respects the Alaska fund will prove to be unique, existing in a resource rich state, with a small but generally highly educated population, but with a climate tending to discourage an in-rush of new migrants.

The suggestion of the permanent fund naturally generates comparison with other significant funds. Therefore, in the following pages we will very briefly review and comment on other such resource-based funds in the United States, Canada, and other countries of the world. Such a review puts the Alaska Permanent Fund in perspective, and contributes to a feel for general philosophy and concept which Alaskans might wish to choose.

However, such a comparison leaves the impression that the Alaska Permanent Fund will not stand in the shadow of other similar funds, but rather has the potential of being among the more significant. The Alaska Permanent Fund will not only be a basic economic tool of Alaskan development and security, but will give Alaska standing and notice in the financial community, a rich resource in itself.

Development banks and special funds vary from the international world bank, to regional development banks, include development banks for the simple purpose of borrowing and relending (without any particular natural resource assets, and extend to a relatively small number of development bank funds, most akin to the Alaska situation, where the fund is heir to a significant income of natural resource revenue.

Generally the funds, or banks, fall into three categories, depending on their situation and activities.

- 1) International Institutions consisting of a membership a number of countries, with the purpose of fostering development and growth of a particular region. Example, The World Bank, Asian Development Bank, Inter-American Development Bank, etc. Such banks are usually a vehicle for industrial nation members (receiving no benefits) to channel funds to underdeveloped regions.
- 2) Government owned banks for the purpose of borrowing funds in the international market and translating then to target domestic development enterprise. Such banks borrow often from the international institutions (World Bank) and are a convenient vehicle for picking up government guarantees of such lending: Example, on a Alaska level the Alaska Housing Finance Corporation borrows mortgage money and relends those funds for housing through local banks (with state guarantees via an appropriated mortgage reserve).
- 3) Funds and banks restricted to a local geographic area, or to a specific industry, and based on resource assets. This group contains the smallest number of funds, such funds are relatively new, with the majority based in the Middle East, and are usually funded by resource related revenues. Basically, the Alaska Permanent Fund fits this category.

For purposes of review we will first discuss various state funds, pertinent funds of foreign countries, and then the large international funds, since much of the permanent fund "proposed" concept derives there.

## SEVERANCE TAX AND ROYALTY INCOME DISPOSITION BY STATE

Following is a quick review of how various resource producing states dispose of resource revenue from severance taxes and royalties. State's which will be discussed specifically are excluded from the list below. How tightly the use of such funds are dedicated is worthy of note.

ALABAMA: Timber severance taxes support State Conservation Department restoration activities.

Coal severance taxes pays debt on docks and seaport facilities revenue bonds. The fund is reportedly now bonded to maximum.

ARKANSAS: Revenue from severance taxes returned to local counties.

CALIFORNIA: 56% of severance and royalty income goes for capital programs in California's higher education system.

22% special projects --irrigation and navigable waterways.

8% to State Conservation Department

COLORADO: Severance tax goes into general fund.

IDAHO: Severance tax goes into general fund.

KANSAS: All oil, gas, mineral revenue goes to general fund.

KENTUCKY: Severance taxes go to short-term investments, a portion to be divided semi-annually with counties for special projects, with all remaining money going to the general fund.

LOUISIANA: 90% for state general income, 10% to parishes (counties).

MINNESOTA: 10% of taconite tax to state general fund, 90% to counties where produced. All royalties to general fund.

MISSISSIPPI: Timber severance tax, 50% Forest Redevelopment Fund, 25% to state general fund, and 25% to counties.

N. DAKOTA: 35% of coal tax goes to Coal Impact Office, then allocated special projects where coal is mined.

35% to Land Board Trust Fund (2/3 for environmental studies, 1/3 invested with proceeds to general fund.

30% to state general fund, and 5% allocated to counties.

OHIO: 75% of severance taxes used for restoration of orphaned strip mining land.

OKLAHOMA: 85% to the state general fund, 15% allocated to counties.

UTAH: All funds to state general fund.

#### GENERAL FUND VERSUS DEDICATION

It is interesting to note that the major oil producing states listed, except California, all tend to keep resource revenue unrestricted and place the funds in their general revenue accounts (Colorado, Kansas, Louisiana, Oklahoma). The mining and timber states tend to restrict revenue to special areas of expenditure --usually restoration activities. In other instances mining and timber states apportion a major part of funds back to producing counties, or to all counties in general.

It should be noted here that Alaska has been a general fund state to the extreme, with virtually all revenue going to the general fund, and then having to be sought by each spending sector on a basis (presumably) of need and performance. Critics of highly restrictive, or dedicated funds, are quick to point out that proceeds of a dedicated tax is often more than sufficient at first, but then as growth and cost escalation takes place the funds are insufficient --yet the revenue has become an inflexible spending guide. Further, critics point out that some governmental units have become so mired in innumerable dedicated revenues that they could show an overall surplus but yet be on the verge of bankruptcy due to not being able shift revenues to areas of need. One of the reasons for the breadth of the Alaska Permanent Fund, and for the deletion of severance taxes from the fund, is due to Alaskans hesitancy to depart from their tightly centralized general fund system. On the other side, Alaskans perhaps learned that the "general fund rule" is most applicable to states with normal revenue flow, where a few percentage points of excess, or discretionary new, revenue is the norm.

Hence, Alaska finding itself in the unusual world of excess revenue, in part saw the wisdom of removing large portions of funds from the temptation of day-to-day government spending, but still cautiously sought to keep such funds in a "broad concept" free of inflexible dedication --and capable of changing somewhat with changing demands of the state.

#### STATES WITH MORE SPECIFIC RESOURCE FUNDS

##### ARIZONA:

Arizona has a number of funds, of which the most significant is the New Mexico Permanent Fund created in 1898. The fund has assets of 10-million acres, and \$675-million.

Income came originally from sale of state lands. Revenue currently is earned from oil, gas, and mineral royalties, income from land rental and grazing lands, and from capital gains on investments.

Management is exercised by the State Investment Council (governor, treasurer, commissioner of lands, finance officer, and four members appointed by the governor for five year terms.

Funds are invested from the permanent fund. Present apportionment is 18% equity, 32% corporate obligations, 50% U.S. government obligations.

Approximately 80% of the earnings of the fund go to the Arizona Public School System.

The second significant Arizona fund is the Severance Tax Permanent Fund, with capital of \$103-million, with earnings derived from petroleum and mining. Management is by the State Board of Finance (treasurer, governor, lt. governor, and three citizen members.

~~Funds are invested in Certificates of Deposit of State Banks, who in turn make capital loans to the private sector. General loan appropriateness is left to the banks, although participation in sizable loans by the banks requires approval of the State Board of Finance.~~

Presently \$94-million of the fund is in bank certificate of deposits maturing one-to-five years at a rate floating at the rate of short term treasury obligations plus 50 basis points.

The Arizona Severance Tax Permanent Fund can be looked at as a mild form of Development Bank operating at the discretion of the private sector.

## TEXAS PERMANENT UNIVERSITY FUND

Texas is perhaps looked at as being synonymous with oil wealth, and in a vague sense its university fund is perhaps the best known of so-called state resource funds.

The Texas Permanent University fund has assets of 2.1-million acres of land in 19-west Texas counties and assets with a book value of \$781-million. The fund was established in the Texas Constitution for the purpose of supporting a university.

Funds come annually from oil, gas, and water royalties, gains on investments, mineral lease rentals, and proceeds of any land sold. Income is invested as principal, and then earnings apportioned 2/3 to the University of Texas and 1/3 to Texas A & M.

Management of the fund is by direction of the Board of Regents of the University of Texas via the State Treasurer who holds the funds. The Regents are appointed by the Governor for six year terms with confirmation by the State Senate.

Funds may be invested in bonds of the United States, State of Texas, or counties of the state, school bonds, or bonds of any city or state. The funds may be invested in securities guaranteed by the United States, and in bonds, debentures, and preferred and common stock issued by corporations. However, not more than 1% of the fund may go into a corporation, nor may the fund control more than 5% of the voting stock of a corporation. Additionally, firms in which stock is acquired must be listed on the stock exchange and must have paid dividends for five consecutive years.

Presently of the \$781-million held by the fund, \$279-million is in corporate bonds and \$254-million in common stocks.

The Texas fund might be best described as of the "trust fund," or savings account, variety, with funds going for a relatively narrow purpose. The funds go only for the University of Texas and Texas A & M, and then only for capital projects.

After Alaska had received the \$900-million in oil bonuses in 1969, the Texas fund was often pointed to as an example "of how not to go," and the fact that once such "motherhood funds" are constructed that they become virtually impossible to dismantle.

### WYOMING RESOURCE FUNDS

The State of Wyoming has three resource based permanent funds dealing with: 1) the University of Wyoming, and income from university dedicated lands, 2) monies derived from severance tax on minerals, and 3) monies derived as government royalties in minerals.

THE UNIVERSITY FUND has lands of 34,492 acres and capital funds of \$8.5-million. Income is derived from lands dedicated to the University of Wyoming, with the State Treasurer being responsible for investment with proceeds being turned over to the Treasurer of the University.

WYOMING PERMANENT MINERAL TRUST FUND is a creation designed to retain monies collected from a severance tax on all minerals. The State Treasurer manages the funds and upon legislative approval ~~the funds may be used for~~ loans to local political subdivisions. The capital funds amount to \$51-million. Income earned on the fund is placed in the state general fund.

WYOMING GOVERNMENT ROYALTIES FUND has land assets of 3.1-million acres and an undisclosed amount of capital funds. Monies are derived also from income from the state share of federal leases in Wyoming (50%). Funds go 50% to public school systems, 35% to the state general fund, 9% to the University of Wyoming, and 6% to counties. The funds are deposited with the treasurer, but since the fund was only created in 1973 the legislature has yet to address management detail.

#### REGIONAL DEVELOPMENT BANK TYPE-FUNDS

The most typical regional development bank examples are based in Puerto Rico, Pennsylvania, Sweden, Japan, and Mexico.

#### GOVERNMENT DEVELOPMENT BANK OF PUERTO RICO

The development bank was created in 1948 as a public corporation to 1) act as a fiscal agent for the Commonwealth, municipalities, and public agencies, and 2) to make loans to private enterprise which will aid in developing the economy of Puerto Rico. The bank's charter provides that no changes in law may impair the obligations of the bank, and that the bank is exempt from the Commonwealth Banking Law.

In 1975 the bank had assets of \$782-million, was originally capitalized by legislative appropriation, but today its capital is received from operations, capital notes (some guaranteed by the Commonwealth), and lines of credit with U.S. and Commonwealth banks.

The governing body is a seven member Board of Directors appointed by the governor for four year terms subject to the approval of the Council of Secretaries of the Commonwealth.

The bank is responsible for the timing and sale of bonds by the Commonwealth and its agencies, and between 1944-75 arranged for \$11-billion in such borrowing. Additionally from 1944-75 the bank disbursed over \$337-million in loans in the private sector (47% manufacturing, 22% for commercial buildings, 6% for hotels). In 1976 the bank had \$165-million in business loans outstanding. The bank also issues its own full faith and credit notes (\$40-million as of 1975), and is the clearing house for checks in the Commonwealth.

In 1975 the bank negotiated a \$612-million note purchase agreement, guaranteed by the Commonwealth, with major mainland and Puerto Rican banks, to provide for a revolving credit line for the Commonwealth.

The Puerto Rican bank does not resemble what an Alaska Development Bank might look like, since the Puerto Rican bank takes on the comprehensive role of overall fiscal agent for the government in many respects, earns its profits from actual banking, and then seeks to reloan capital, and leverage capital, under a development bank concept designed toward Puerto Rican economic development goals. The bank is not a resource-based institution.

#### PENNSYLVANIA INDUSTRIAL DEVELOPMENT AUTHORITY

Created in 1973 the Authority has assets of \$266-million and capital of \$226-million. The purpose is to relieve unemployment and economic stagnation by promotion of research and development in critical areas.

The Authority is permitted to make mortgage loans to non-profit Industrial Development Agencies, who in turn use the borrowed funds to finance private industrial projects below market interest rates.

Monies have come from aggregate legislative appropriations of \$191-million between 1956 and 1975, from the proceeds of tax exempt bonds amounting to \$72-million, and from repayment of principal and interest on outstanding mortgage loans.

The Authority is managed by a board of six cabinet level officials and seven lay members appointed by the governor for seven year terms. Monies held are invested according to state statute.

The present Pennsylvania Authority portfolio consists of \$206-million in mortgages at interest rates ranging from 7/8 of 1% to 4% per annum, representing a considerable interest rate subsidy.

The Pennsylvania is a relatively narrow based Development Bank whose prime purpose is to borrow in the market and translate funds cushioned via state appropriations into industrial activity in areas of high unemployment. The authority resembles the Alaska State Housing Authority, or perhaps the Alaska Housing Finance Corporation (an ASHA affiliate), which the legislature appropriates a 2% mortgage reserve for to back a 98% borrowing in the market, with those funds being transferred into commercial banks for loaning under the guidelines of Alaska's moderate income housing finance program, Note: the Alaska Legislature gave AHFC \$2-million mortgage reserve already in 1977, which could back \$100-million in financing, with the corporations last loan package earning a good enough rate to float some mortgages below 8 per cent.

#### SWEDISH INVESTMENT BANK

Purpose to assist in financing industrial and commercial projects in Sweden consistent with national economic policies. Assets are \$672-million with capital of \$270-million. The bank depends on subscribed capital, reserves, net income, and cash flow from lending operations as a source of funds. The fund is not resource based.

The bank is governed by a Board of nine directors and nine deputy directors, with operational management resting with the Managing Director and staff. The staff is quite small consisting of 31 employees. Most staff consists of lending officers with previous investment banking experience.

The Swedish bank makes medium (5-10) and long-term (10-20) year loans and also guarantees loans, and is authorized to acquire equity. In 1974 the bank held \$487-million in debt against \$270-million in capital, for a ration of 35% capital to 64% debt.

It should be noted here that an Alaska Fund might also take its development bank portion of funds and increase, or leverage, those funds by acting as a barrower and relender. Hence, a \$2-billion development bank portion might yield a total of \$6-billion in total command of funds going into Alaskan field investment.

#### JAPAN DEVELOPMENT BANK

Established in 1951 the bank has assets of \$11.4-billion and capital of \$759-million. The bank's purpose is to supply long-term funds for industrial development and economic and social progress. Loans may be made for: 1) acquisition, construction, improvement of plant, 2) reclamation of land, 3) for acquisition of land and construction for urban redevelopment. Sources of funds are barrowings from the Japanese government, repayment of loans, and internal sources. Outstanding government loans to the bank are \$9.3-billion, with other sources being foreign currency barrowings, and funds from the World Bank (all guaranteed by the Japanese Government). The bank is authorized to barrow an amount equal to 10-times its capital and statutory reserves.

It should be noted that while the Japan Development Bank is not a resource based institution, meaning it has no annual inheritance from oil, coal, and etc., the Japanese Government has acted to back the bank with capital in a very strong manner.

The Japan Bank is managed by a Governor, Deputy Governor, and eight Executive Directors, but also appointed are two auditors and six Counsellors. The Governor, Deputy and Auditors are appointed by the Prime Minister for four year terms, with the Governor then appointing the eight executive directors and counselors for two year terms. The executive directors are assigned various management functions by the Governor, but final authority (and therefore responsibility) to make decisions for the bank in all matters resides exclusively with the Governor.

It would be interested to learn the theory behind the finality of all authority assigned to the Governor of the Japanese Bank, and to know if the concept resembles the fixing of responsibility as in the Alaska central executive system --the concept being that the clear fixing of responsibility in itself is a preventative against mismanagement and mis-use of office by the chief executive (and his underlings).

The Japanese Bank lends money for the large part below the market rate, with the maximum being 9.2%, and for usual terms between 10 to 15 years. Most of the banks lending operations involve financing in cooperation with private financial lenders, with the Japan Bank taking the intermediate and longer term maturities and private banks taking the shorter maturities. Until 1960 the banks lending centered around electrical power, shipping, coal mining, and the iron and steel industry, but since then has become more involved in urban development and pollution control. Categories of investment are as follows:

- 8% technological development
- 15% energy
- 21% ocean shipping
- 12% regional development
- 16% urban development
- 14% pollution control
- 3% quality of life projects

How well does the Japanese Bank perform --for the year ending in 1976 the bank earned \$105-million, with \$78-million going into statutory reserve and \$26-million going to the national treasury.

MEXICO "NATIONAL FINANCIERA S.A.

Established in 1934 for the purpose of financing Mexican economic development, the bank has assets of \$6-billion and capital of \$555-million. The institution is a mixed private/public institution, but by law the Mexican government must retain 51% of the stock. In actuality the government owns 68%, with remaining stock being owned by other Mexican institutions.

The declared purpose of the institution is: 1) create employment, 2) improve personal income, 3) expand regional development, 4) centralize industry, 5) promote exports, and 6) foster economic independence.

Source of funds are capital funds contributed by government, retained earnings, and cash flow from lending operations.

The Mexican institution is managed by a Board of Directors with the Minister of Finance as Chairman, with certain veto powers retained by the President of Mexico. The Director General manages the institution, which has a total of 1,600 employees.

The National Financiera may provide direct loans, give loan guarantees, and participate in equity. However, the principal activity is direct lending with \$4.9-billion outstanding. The Mexican institution is not resource based, but is heavily supported by government cash input and operates as a classic development bank.

THE WORLD BANK (Int'l BANK FOR RECONSTRUCTION AND DEVELOPMENT)

The best known of development banks, the World Bank was drawn up in agreements at the Bretton Woods Conference of July, 1944, with membership initially covering 29 sovereign states. The present membership is 127 states.

A bank of worldwide scope, rather than regional, the World Bank acts as a conduit of funds from economically developed nations to underdeveloped nations. The purpose of the bank is to facilitate investment of capital for productive purposes, supplement private foreign investment through guarantees or participation, and supplement private investment via loans from bank resources or borrowed funds.

The capital in the fund comes from member states and borrowings in U.S. and international capital markets, plus profits from operations, and resale of loans. The bank presently has assets of \$29-billion, and paid-in capital of \$3.1-billion. The bank operates with a 73% debt and 26% capital stock retained against guarantees and investments.

The World Bank is interesting in that it also has affiliated institutions such as the International Finance Corporation and the International Development Association. IFC makes loans and investments to private enterprise in 104 member countries, while IDA is to promote economic development in "less developed" countries (116-member countries). IDA loans go for terms as long as 50-years, and with very little interest.

Management of the World Bank is composed of a Board of Governors, one from each member nation, and 20-Executive Directors appointed by function.

The President of the World Bank is selected by the Board of Executive Directors. The bank has a staff of 3,500.

World bank loans must be to governments, or their instrumentalities, or if to private enterprise must be guaranteed by member governments, loans must be for productive purposes based on bank analysis, and the bank must consider the ability of the borrower to obtain foreign exchange necessary to service the loan. Loans are also carefully monitored to assess their economic and social contribution.

Since inception the World Bank has made \$31-billion in loans to 95-countries, and currently has an outstanding loan portfolio of almost \$28-billion. Largest borrowers are Brazil, Mexico, Korea, Yugoslavia, Columbia, Iran, Turkey, Philipines, and Nigeria.

The world funds and their affiliates are of interest, because it was to the management structure of these entities that state consultants on the permanent fund looked in making their recommendations for the management of the Alaska fund. The World Bank has a sizable staff partially due to the evaluation, technical assistance, and monitoring that is a part of the bank's function. It is likely that an Alaska Fund would not have such a staff, and indeed might have a quite small one. Nevertheless, a subsidiary question in the development of the Alaska Permanent Fund will be " . . . to what extent evaluative services --not simply of benefit to the fund in analysis of a loan, but of use to the borrower in developing the loan and entire financial package-- and additionally, to what extent ongoing technical assistance, will be available to development loan packages. Such a decision will determine whether the Permanent Fund staff is large, or quite small.

It should also be noted that the Alaska Fund, like the World Bank, could construct affiliates to operate 1) in the less developed areas of the state, and 2) a second affiliate designed to grant very long-term loans at very low interest. The later affiliate would operate where there is extreme needs to meet employment and social problems, could receive special technical help and monitoring, and would be "separated" in such a manner so that the legislature and executive could "knowingly" watch the performance of this high risk unit. Additionally, the fund might be protected by the legislature reimbursing from the general fund a subsidy against the low-interest, or agreeing to in principal appropriate for the high risk frontier losses (note: the words "in principal" are used since no legislature can bind a future legislature --the arrangement would have to be one of moral commitment).

#### OTHER INTERNATIONAL DEVELOPMENT BANKS

Other International Development Banks tend to be more regional, and in most respects are similar in structure to the World Bank. Such banks will be discussed only briefly, and are: The Inter-American Development Bank, the Asian Development Bank, and the African Development Bank.

#### INTER-AMERICAN DEVELOPMENT BANK

Founded in 1959 the bank has assets of \$3-billion, authorized capital of \$6.3-billion, and paid-in-capital of \$983-million. Membership consists of 24-American governments and 10-non-American governments.

The bank has a management structure of a board of one-each from member nations, and eleven executive directors. The board hires the President, and the directors the vice-president.

Loans are made to member nations, or are guaranteed by those nations. The bank has experienced two defaults totaling \$11.2-million, and resulting in a net loss of \$1.8-million.

Funds for the bank are derived from member nations, and also a number of special grant trust funds. A U.S. grant of \$537-million funds the Social Progress Trust Fund --for land settlement, land improvement, low income housing, water supply, and sanitation (119-loans). The Special Operations Fund, from special subscription of bank members, deals with special circumstances (special long-term loans, low interest). Assets 453-loans at \$4.3-billion. The Venezuelan Trust Fund consists of \$500-million granted by Venezuela in 1975, and loans are aimed at the "smaller members."

#### ASIAN DEVELOPMENT BANK

Established in 1966 and has assets of \$2.8-billion, authorized capital of \$3.3-billion, and paid-in-capital of \$1.1-billion. Funds come from member nations. Managed by a Board of Governors and Board of Directors, but with most power vested in the Board of Governors. The bank has 31-member nations, and loans in 15-member countries. Loans to other industrial development banks 27%, for utilities 35%, transportation and communications 21%, agriculture 14%.

#### AFRICAN DEVELOPMENT BANK

The smaller of the banks the African Bank has authorized capital of \$400-million, and issued capital of \$370-million. Established 1964 it now has 39-members, 16 of which are in the U.N.'s list of least developed nations. Management is by Board of Governors through a Board of Directors.

Funds come from member country subscription, retained earnings, and barrowing, but the bank also operates the African Development Fund, a fund established by grants from 16-non-African nations, and a separate organization of private participants, with the fund providing interest free loans for as long as 50-years. Present portfolio consists of loans in 31-countries for \$192-million total.

#### EUROPEAN INVESTMENT BANK

The EIB established in 1957 by the same treaty creating the European Common Market (European Economic Community -EEC), consists of members of the EEC, with its purpose to contribute to the balanced and orderly development of the market among member states. Assets \$6.4-billion, authorized capital \$471-million, and paid-in-capital of \$471-million.

A three tiered management structure consists of a Board of Governors (member each nation), a Board of 18-Governors, and a management Committee appointed by the governors on advice of the Board of Directors. In 1975 loans were apportioned 30% energy, 24% industry, and 17% transportation.

#### EUROPEAN COAL AND STEEL COMMUNITY

Established 1975 with assets of \$3.5-billion (by treaty). Membership 9-European nations, with the purpose of the fund being to aid the economies of member nations through creation of a common market for coal and steel. The fund structure is highly complex and subjects itself to the Court of European Justice (treaty interpretation), and the European Parliament (which can compel the resignation of the governing commission). Income is derived from a monthly levy on participating countries yielding \$100-million per year, and \$3.3-billion in barrowing.

The European fund seeks to protect investments by government, bank, industrial guarantee, or by mortgage. In 1975 the fund earned revenues on investments of \$307-million (57% interest, 26% levies, 15% from interest investment and contributions), and paid out 55% to pay interest (on fund borrowings for relending) and retained 16% excess, most of which went to the loan guarantee fund.

#### THE RESOURCE BASED FUNDS

A quite separate category of special funds, development banks, and etc., are those funds based on a generous income from a natural resource. Contrary to popular belief they are somewhat rare, with several exceptions confined to the Middle East oil nations, and are relatively NEW!

Additionally, only several might be comparable to an Alaska Fund, since the Alaska circumstance is one of a sizable special fund in a state with a relatively small population, a population highly educated, and existing in a sophisticated democratic and economic framework. The Middle East funds possess the initial circumstance --the sizable fund-- but lack the remainder (education, democratic framework, economic sophistication). However, to a greater degree the Alberta Heritage Fund and the Venezuelan Fund offer some comparison.

#### SAUDI DEVELOPMENT FUND

Established 1974 the fund is believed financed directly from Saudi Arabian revenues. The fund is managed by a six member Board of Directors selected by the Council of Ministers. The purpose of the fund goes beyond Saudi borders to foster development with loans to developing states. The fund limits loans to no more than 5% of fund capital, and 50% of the project being financed.

Reported capital of the Saudi Fund is 10-billion Saudi Riyals, with total assets uncertain (\$2.8-billion in U.S. dollars).

#### ARAB DEVELOPMENT BANK

A regional development bank established 1974. Authorized and subscribed capital \$231-million. Membership 18-Arab nations with oil nations contributing greater capital, and other members only about \$1-million each. Typical Development Bank Board of Governors/Board of Directors management structure. Much of portfolio goes to African nations, with present portfolio believed to be 20 - 25 loans in about 20 African nations.

#### ARAB FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT (Kuwait)

Organized by Arab League in 1968, with operations beginning 1973. Reported 21-member countries, with purpose financing of economic development projects in member Arab nations. Source of funds by subscriptions. Reported interest rates generally low --4% to 6%. Capital is \$400-million Kuwait Dinars, and since 1973 loans totalling \$93-million Kuwait Dinars have been made for 18-projects in nine nations.

#### ABU DHABI FUND FOR ARAB ECONOMIC DEVELOPMENT

A great deal is not known about the Abu Dhabi Fund, except that its funds come internally from Abu Dhabi revenues, and that loans exceeding \$500-million are outstanding to the fund in 11 countries. Loans go to Arab, African, and Asian nations within the Islamic sphere.

#### ISLAMIC DEVELOPMENT BANK

Bank established in 1975, based in Saudi Arabia, capital \$2-billion Islamic Dinars, paid-in capital \$755-million Islamic Dinars.

The purpose of the bank is to foster development in Islamic countries, with present membership numbering 29-nations. The bank is permitted to purchase equity, make loans in the public and private sector, establish and operate trusts or special funds, assist members in matters of foreign trade and economic cooperation, and invest surplus funds. Funds come from members' capital subscriptions, leverage is permitted but not yet used. The bank uses the development bank, more typical format, of a senior board of Governors, then appointing a Board of Executive Directors and President to be responsible for management. Executive Directors approve all loans.

#### KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

Authorized capital \$1-billion Kuwait Dinars, paid-in-capital \$328-million Kuwait Dinars. The purpose is to assist Arab and other developing nations in development through loans and the guarantee of loans. Funds appropriated annually. Management structure is Prime Minister as Chairman of the Board, with nine other directors serving two year terms. Chairman appoints Director General of the fund. Net profits are credited to the reserve account until reserves equal 20% of capital, thereafter profits added to the capital of the fund.

#### COMMENTS ON ARAB RESOURCE FUNDS

It should be noted that the Arab funds are regional development banks, whose primary purpose reaches beyond the borders of the sponsoring nation, or nations. The funds are based on resource revenues, but not in a statutory or specified amount. Generally the capital comes from membership subscription or special appropriation by the nation, or nations, to the fund. The fact the funds are of relatively recent origin is of interest, and marks the rapid

expansion of Middle East economic affairs that came with swelling oil revenues after the successes of OPEC in the early 1970's.

#### FONDO DE INVERSIONES DE VENEZUELA

Established in 1974 following the OPEC oil price increases, the fund has assets and capital of over \$5-billion (paid in as of 1974 - 1975). The purpose of the fund is to: 1) create a professionally managed reservoir of public funds that would be kept out of the domestic money supply until needed; 2) to invest in external capital markets funds not immediately needed in Venezuela, 3) to assure a rational and diversified internal investment program designed to reduce Venezuela's dependence on oil revenues, and 4) to generate economic growth that creates full employment, redistributes national income, and encourages technological independence.

Sources of funds come from yearly allocations of oil revenues determined at the highest level of government and approved by the President.

Fund operations overseen by General Assembly consisting of State Ministers and high level government officials. Policy dictates from the Assembly and other high level political sources, with management by an Executive Directorate (specific investment decision level).

Internal staff divided into three groups: 1) International Financial Group (external market investments), 2) International Financial Cooperation Group (loans to non-Venezuelan government agencies), 3) the National Investment Group (debt and equity investments in Venezuelan entities). The Venezuelan Fund is one of the more sizable funds, and in just two years of allocations is about what the Alaska Permanent Fund might be expected to be by 1984.

#### COMMENTS ON THE VENEZUELAN FUND

The Venezuelan Fund is of interest because of its size and its basis on oil revenues. Secondly, like the Alaskan fund one of the purposes is to keep a deluge of public revenue temporarily out of the local money supply "until needed." In Alaska the same rationale is geared towards problems of excess revenue government and government growth, while in Venezuela it is likely geared to the same plus inflationary and trade problems. Third, like the Alaskan Fund may have to do, the Venezuelan Fund recognizes specifically a need to invest prudently in external markets excess funds (keeping them out of the local supply and prudently invested). Fourth, the Venezuelan Fund like the Alaskan Fund has a declared purpose of diversifying with internal investment to reduce Venezuela's dependence on oil revenues. Fifth, the Venezuelan Fund declares normal investment bank purpose of investing to create full employment, redistribute income, and gain technological independence. Similarly in Alaska the fund seeks to smooth Alaska's economic cycles, and diversify the economy.

#### ALBERTA HERITAGE SAVINGS TRUST FUND

Established in May 1976 to invest a portion of non-renewable resource revenue to the future benefit of the people of Alberta.

The fund may invest up to 20% of its total in projects of long-term economic and social benefit to the people of Alberta, but which will not yield returns to the fund. However, funds in this category must be specifically appropriated by the legislature. The fund may invest up to 15% in loans to the Crown, or to other Provinces, or in loans guaranteed by the Crown.

An Investment Committee may invest in other loans yielding a profit to the fund and which strengthen and diversify the Alberta economy. The basic funding derived from original funding of \$1.5-billion, plus 30% of the non-renewable resource revenue to be received in fiscal 1976-'77, and each fiscal year thereafter if the Legislative Assembly enacts a Special Act authorizing such transfers.

However, in the Alberta Fund is managed in a very ordinary government way, with the fund principally lodged in their equivalent of our Department of Revenue, with actual management in the Provincial Treasurer's Office. The Treasurer interacts with an Investment Committee composed of all 24-members of the Provincial Executive Council.

It should be noted the fund has no ability to guarantee the loans of others, or to act to leverage its funds in a development bank manner.

#### COMMENTS ON THE ALBERTA FUND

The Alberta Fund could prove to be a sizable fund, and like the Alaskan Fund operates in a northern region, is not an absolute sovereign (a Province within a nation), and like Alaska exists in a modern democratic framework with a highly educated population.

In relationship to structuring, it is interesting to observe that Albertans felt little need to give their fund "political shelter," and instead clearly run the fund with the political principals in command. In addition, Albertans expressed caution in committing infinite years of oil revenue to the fund, perhaps as Alaskan lawmakers were hesitant of such unilateral commitment and hedged on including severance taxes within the

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framework of the 1976 constitutional amendment creating the permanent fund.

#### GENERAL COMMENTS

The reader can draw their own conclusion from the previous brief rundown on the large world monetary funds. However, several things do stand out, and some of those features challenge some usual misconceptions.

First, while Alaskans were cautious in 1970 concerning rushing into dedicated resource funds, it would appear in looking at the World Funds that such caution was not unusual (and perhaps not unjustified). Some of the U.S. state funds date to the early 1900s, a few to the nineteenth century, but most of those funds also reflected quite narrow dedications and lack of flexibility in use of funds. A few of the regional development banks pre-date World War II (Mexico), but most date from the 1950s period. Lastly, quite contrary to what may be the standard conception, few resource based pre-date the 1970s.

Secondly, not only do few resource funds pre-date the 1970s, but they are relatively few in number (Alberta, Venezuela, Middle East), with most being keyed to the early 1970s run-up in oil prices and the creation of the "excess revenues problem."

Thirdly, it becomes obvious that there are few classic models to follow for something like the Alaska Fund, partly because other funds are of such recent history, and partly because Alaska's existence in a sub-sovereign condition in a sophisticated democratic and economic infrastructure is akin perhaps only to Alberta.

Thirdly, a variety of sophisticated management structures are reflected, with many funds opting to involve the fund in high levels of decision making, rather than attempting to insulate the fund (Alberta, Venezuela, Mexico, etc.).

Fourth, the structure forecast for the Alaska fund seems to require a complexity equal with the more complex of the development funds. The Alaska fund may be a trust account to earn future security, part development bank to loan debt, acquire equity, provide loan guarantees, to leverage and reloan borrowed funds, plus the overseer of a Consumer Bank, or a consumer bank affiliate (or affiliates), designed to handle a large portfolio of consumer level loans (for which there is scarce capital or unreasonable terms). Note, the latter consumer orientation is perhaps a by-product of the Alaska fund existing in the previously mentioned condition of: 1) a sophisticated democratic structure, and 2) a sophisticated economic infrastructure.

Finally, in comparing the monetary funds it is difficult not to be impressed by the fact that the Alaska Fund may be among the larger funds, depending ultimately on what percentage of resource income (above the constitutional 25%) Alaskans wish to dedicate to the fund.

The Alaska Fund could rank among the world leaders, and therefore implicit in that fact is a challenge to Alaskans for management and control that will combine with "size" to make Alaska a credible and respected entity in the financial markets. In fact, the prestige of a well managed Alaskan fund could spin off benefits to "investments Alaskan" completely outside the framework of the fund itself.