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T E S T I M O N Y

before the
House Special Committee
on the Alaska Permanent Fund

by Harold E. Pomeroy

Sept. 15, 1977

The work of your committee merits high marks. It is clear that you are laying out as many pertinent facts and as much useful information as feasible. The "preliminary report" by your committee "on the Alaska Permanent Fund", is evidence of the quality of your efforts.

The report is a good start. The issues and considerations bearing on the Permanent Fund (P.F.) are so complex and extraordinary, however, that enough data from which to draw well considered conclusions will tend to make any report for general distribution overly long. This is a handicap.

Such qualifications as I may have to appear before you on the P.F. come mostly from actual experiences. I think that reference to these experiences may be useful.

My first contact with Alaska was in 1948 when I flew here from Vienna, Austria, to take a look. In addition to personal interest, there was also the purpose to do off-the-record reconnaissance for groups representing war weary Europeans looking for a fresh start by resettlement. General Kepner provided me with a C-46 to fly around the Kenai Peninsula, Matanuska Valley and Susitna area for an entire day. When I returned and talked with John Gorsuch, then president of the Chamber of Commerce and queried others, it seemed to me the potentials for economically sound large scale settlement, and particularly with reference to an agricultural industry would be too meagre to be feasible.

It looked as though importing ten thousand or twenty thousand or thirty thousand people would be an extravagantly expensive and hazardous effort in the absence of conditions more favorable to viability.

I was raised in alfalfa ranching and dairying in Los Angeles County. After six wearying years in Europe the peace of Alaska as seen in 1948 was so appealing that we homesteaded at Bear Cove on the Kenai Peninsula in 1949. We sawed lumber for fishermen around Kechemak Bay, operated hothouses and commercial gardens. We would have enjoyed this life a little longer had there been very low interest capital investment money, but this would still not have produced enough efficiency to be commercially competitive. We saw and knew scores of once-hopeful homesteader-farmers on the Kenai Peninsula who are now gone.

(one remaining)

In 1965 the executive director of the Tolstoy Foundation, the world-wide White Russian refugee service organization asked for a conference on behalf of peasant Russian emigrees from Siberia who had arrived in the U.S. via China and Argentina and wanted to establish themselves on the Kenai Peninsula in a village where they could retain a simple life style. We aided them, working with Roscoe Bell of the state division of lands to arrange a sale of land and leases.

The Russians were enthusiastic about agriculture. We cautioned that they should be ready to do anything as agriculture might be too meagre. They are now hard-working, successful fishermen. Initially they were prepared to be hardworking farmers but found the potentials too limited.

They have been self supporting from the outset and now have more children in their grade school than there are in the Anchor Point school. If more consumers produce

prosperity I imagine this success story is a good thing.

When the Legislature ordered boroughs organized I became the first borough chairman of the Kenai Peninsula Borough. We initated a tax program, including a tough 3% sales tax that produced as much money as the 5-mil property tax, which has been maintained every year but one, since then. The purpose was to encourage industrial development by stability and a property tax about 25% of that paid outside. There was much enthusiastic talk about conditions coming right for diversified industrial development. Considerable effort and money went into economic development plans, but neither the petroleum industry nor its support activities produced conditions enhancing the potential for varied industrialization. Nothing happened. This, of course, excludes the plants established by the petroleum industry itself.

There was hopeful talk that the high value nitrogen fertilizer urea could be a big boost to agriculture. Anyone can drive his truck to the plant and have it filled with bulk urea. This has not improved the agricultural outlook. ★★★

In 1972 the Legislature passed the "New Cities" bill which was promoted as being a great boon to industrial development in remote areas. The immediate stimulus was the prospective Lost River fluorite enterprise. The bill had significant subsidy implications. I assisted in drafting modifications and supported the bill before the Senate Natural Resources Committee. George Silides testified there were 6 more enterprises ready to go ahead on passage of the bill.

The City of Lost River was incorporated. I learned subsequently that the Canadian promoters expected the law would open the way for substantial U.S. federal government grants for the infra structure required. The underlying problem however, was economic feasibility - the product simply could not compete in the international market. I have heard no more of the other six - just waiting to go. ★★★★

Experience on the Kenai Peninsula has indicated that in periods of normal levels of activity as well as during boom peaks there is a continuing flow of newcomers who compete successfully for jobs. With negligible exceptions employers hire the persons who seem the best qualified, whether just off the plane or lifelong Alaskans.

In view of much effort to promote local hire the actual situation is of compelling interest. To try to understand better what is involved I have been interviewing persons at random since the end of the Cook Inlet - Kenai Peninsula oil and gas development boom - hundreds of them. The persons queried are as varied as: truck-drivers, a new clerk in a pet food store, a new face at Petrolane, men at United Building supply, restaurant workers, persons waiting for their cars at auto service centers and many, many hitch hikers in Anchorage and on the highway between here and Homer. Core questions are: How long here, why did you come, what do you do, did you have difficulty getting work , are you staying ? Not one has told me that he was disillusioned and leaving or couldn't get a job.

From experiences and observations since the organization of the Kenai Peninsula Borough following the Oct. 1963 election, I can only conclude the proposition that economic expansion will cure unemployment is pure illusion. The pressure of newcomers just never lets up. New enterprises and increased economic activity seem to offer enough attraction to keep the pressure on.

I have puzzled over the problem endlessly. Whatever policy we may pursue that stimulates economic development we should do so without the expectation that it will lead us to a plateau of full employment - or even reduce unemployment to a moderate level.

Recently I had occasion to consider the economics of a mining property in connection with writing about severance tax. The property is a substantial body of copper ore

which is reasonably accessible. Development would employ 600 people, which, with dependents, would total about 1800 residents. This number would probably account for another 1800 people in service activities. On the question of the enterprise paying a property tax the response was that this would be impossible. Neither would a severance tax be supportable.

A preliminary guess was that copper would have to be $1.20 to $1.25 per lb, for the enterprise to break even. Copper on the world market was then between 50¢ and 60¢ per pound. Obviously the property cannot be developed until economic conditions become far more favorable. Waiving all state and local taxes couldn't buy economic feasibility, but the State would be incurring a cost of several million dollars for public services .

In the report you have said that "our task is to find out what Alaskans want the Fund to achieve and to recommend legislation .....". This is a difficult task as it is next to impossible to comprehend all the implications of the huge oil and gas revenues. Yet this is a central reality to which we must relate our thinking about the P.F. and everything else concerning the future.

If anyone believes we should spend as convenient as we go along and accummulate in the P.F. only what is left over (with the minimum of 25%) he should stop listening now. If anyone is convinced it is safe to rely on future Prudhoe Bay size discoveries he should stop listening.

Since we began to have petroleum revenues in large quantities the people have aspired towards a variety and level of public services common in most other states. This is far costlier than personal taxes and the productivity of the economy had ~~perilously~~ previously been able to support. Costs in Alaska are higher than elsewhere - for public activities as well as for doing business and living and thus this has aggravated public expenditures. It may be some comfort to rail at the Legislature and a "bureaucracy gone

wild". There are always some inefficiencies , extravagances and poor judgements. The effect of these is insignificant in relation to the total budget. Anyone who thinks some big reform or return to " grass roots " will bring expenditures way down is deluding himself.

The upshot of the situation is that the State is disbursing close to $1000 per person per year more than it takes in, exclusive of petroleum revenues. This is a central reality with implications hard to perceive or to accept. It makes the proposition to diversify the economy in order to broaden the tax base for the time petroleum revenues diminish an almsot total delusion. There is absolutely nothing on the horizon to indicate that any prospective "diversified" enterprises will be able to do much more than pay our currently relatively moderate taxes. In fact the report implies the probability that use of P.F. money to diversify will require benefits such as ~~long~~ low interest rates - meaning some measure of subsidy.

Taking account of the central reality of our situation one can only conclude that effective promotion of diversification will result in an unfavorable balance sheet of costs and benefits, thus eating into resources we are committed to preserve.

The second paragraph on page 9 of the report is an excellent statement. I would change only the second word from "may" to"will" so that it reads " subsidies will only make sense if the loan will be ..... " . This paragraph is generally consistent with the testimony of Drs. Tussing and Daniels touched on in the first and second paragraphs on page 4.

What I have said about diversification applies equally to renewable and non-renewable resources. With respect to agriculture I suggest that the report on Matanuska Valley farming in section B, Anch. Times, 9/4/77 be given close attention. It states inescapable facts, but also quotes what seems to me to be pure wish-thinking. Jalmar Kerttula is the source of statements about massive capital investment aid. He is

quoted as saying :

> "In fifty years farming and prices might no longer be marginal. It's something to plan and work for." and ".. It would take five years to get a grain project really going here and overall we're talking about fifty years from now before agriculture could become an established state industry..."

Hopeful we don't go overboard.

In general, "diversification" and "renewable resources" seem to be similarly deceptive as to broadening the tax base and stabilizing the economy when oil revenues decline.

The third paragraph on page 5 of the report states, "As oil wealth declines, the P.F. may bear the responsibility of supplementing the general fund through income from fund investment, ..." I would change "may" to "will" . A qualification might include words such as "... barring some unpredictable windfall ."

The first paragraph on page 5 touches the underlying concept of the P.F. by referring to preserving the dollars into which the oil and gas wealth is being transformed. Dr. Barbara Bergman, of the Univ. of Maryland, speaking on a panel on Sept. 10, said: "The idea of the P.F. is to preserve resources for future generations". Unfortunately the fast transformation of oil into dollars means a considerable wasting away of the dollars from inflation; increased price of the oil in the ground would probably offset inflation, but this is not possible. Managing the money for high return can help preserve the value of the dollar resources.

There is probably no more important statement in the report than the sentence on page 9 "If no in-state opportunities exist, the P.F. cannot create them." In other words, if the requisite conditions for economic viability are not present the State cannot buy them. Further, as a general proposition, if requisite conditions are present, money is available and the State need not go into the financing business separately. This, of course, excludes some social purpose which might be deemed worthy. Any action in this direction should be based on a clearcut identification

Supply side

of the results to be produced and the costs involved.

I have said that the petroleum revenues are a central reality to which we must relate our thinking and projections for the future. The significance is in the sheer magnitude of money, what we have done so far, and where it is taking us.

Some comparisons may help in relating, and therefore in evaluating: if the State's budget is increased an average of 10% per year, the budget in less than 20 years will be $6 billion; the 10%annual increase might be made up of 5 - 6% inflation, 2.5% ± population increase, the rest in services expansion. Gold production in 1976 showed a big increase over 1975. If state revenues totalled $20 per troy ounc of gold for 1976 (a ridiculously high figure) this revenue would be equal to about 4 hrs of the revenue produced by oil and gas when Prudhoe Bay production is at 1.6 million bbls per day.

Recently an exuberant state official said the 200 -mile limit provides us with such a potential bonanza in bottom fish as to overshadow gold and oil combined. A very rough estimate, based on the officials enthusiastic figures indicates that the revenues to the State by 1990 for a year might equal about seven and one-half days of the oil revenue at peak. At the present rate of oil production from the "giant" (by outside standards) Cook Inlet - Kenai Peninsula fields it would take 150 years to produce as much as will flow from Prudhoe Bay in about 20 years.

It seems to me that the central reality is in the question: what do we really want the fund to do for us in the future and that this takes precedence over how we invest whatever money there is in the fund. I construe the size of the fund to be basic to "what do we want the fund to do for us." The people have already expressed themselves in principle. We haven't made clear the picture as to the possible total of the abnormal oil and gas revenues - not just the revenues of which 25% must go

into the P.F. Figure 1 on page 6 of the report is a good start but it isn't enough. I suggest there should be an expenditure chart starting in 1974 or 1975 and projecting on to about 1997. It would have to be on an "assuming that" basis.

This should be accompanied by a similarly based chart of revenue with all the oil and gas revenues (incl. the pipeline tax),and the "normal" revenues,shown separately.

The people need to be informed more fully - if possible - in order to make value judgements on any aspect of the oil and gas revenue. MOre information might lead to better perception as to a basic goal for the long time future and perhaps influence judgement as to " diversification" and "renewable resources" versus "Investment in high yield, low risk securities ....", for example.

It seems to me that presently there is danger of people becoming excessively attracted by sacred cow catch phrases which are deceptive because they sound so nice. They are also deceptive because the rate of state expenditures we have reached plus exceedingly high costs, brought on by our own inflation from the sheer velocity of money is further depressing the potential viability of many ordinary economic activities. Consider: our agricultural wages are the highest in the U.S.; the avergae of seven construction industry classifications, incl. laborer, had risen to $15.43 an hour, excl. fringe benefits, by last January.

If the people should believe it desirable to feed and nurture the P.F. to maximum feasible size and productivity, the result might be the greatest assistance that could be extended to future prospective enterprise through the simple effect of helping to hold future taxes down. Obviously, every citizen would benefit, too. In this connection the obligation to preserve the wealth, converted into dollars, necessitates enhancing it with earnings to offset its wasting away from inflation to maybe half its face value in 20 years.

Statement for the Special Committee fot the Alaska Permanent Fund for the September 15, 1977 public meeting in Anchorage.

From Betzi Woodman, 117 E. Cook Ave., Anchorage, Alaska 99501

My name is Betzi Woodman and my profession is writer. I first met Alaska in 1953 when my husband was assigned here with the Air Force. We extended his two-year tour because we had fallen in love with the place. After a brief hiatus in California where he decided to retire from the Air Force after 20 years service, my husband and I came back to make our home here in 1959. Since then, our three children and their children also live here so we have a broad stake in this our adopted home. I have been involved in numerous volunteer activities over the years and after writing for both newspapers in Anchorage, I chose at the end of 1963 to become a freelance writer which profession I still follow. The work has taken me around the state often and brought me in contact with many people. Much of what I present here has been discussed with several of these persons who concur with my thinking.

You will be besieged by suggestions on where to invest the Permanent fund, how to spend its income. Choosing among these suggestions will be a most demanding job and I hope that you can maintain your thoughtful approach and not succumb to impulse or sudden pressure of a particularly vocal group.

When the state received the then-unprecedented $900 million in oil and gas lease bonuses in 1969, the late Gene Guess convened a series of seminars to get public opinion on how to use the riches. He invited a group of Alaskans from all regions and representing a broad cross section of interests in the state to meet with a faculty from the Brookings Institution. I was privileged to be an editor for the series and helped to record and summarize the final report of what the people wanted.

It was noteworthy that with one exception, everyone who came, no matter how regional his prior feelings, soon put regionalism aside and truly addressed the subject of what was best for Alaska and its people as a whole. The specifics are on record, but the overall finding showed that it did not matter how much money the state had--a lot or a little--the desires would be the same: to maintain that peculiar Alaskan quality of life and to enhance it.

Brainstorming sessions revealed that defining Quality of Life was a bit more complicated. Each related to his or her particular experiences, attitudes and life style. Basically, however, accomplishing this goal would include:

--Protection of environmental values
--Conserve non-renewable resources
--Develop renewable resources, particularly fisheries
--Provide educational opportunities which fit the peoples' needs and desires
--Encourage cultural development
--Support the strong, independent character of Alaskans.

It was suggested in the discussions that Alaska could skip certain historic phases in development--such as industrial--and could find innovative approaches to economic questions, although few specific programs were presented by the faculty.

At the same time the Brookings' findings were making their impact, a new phrase was heard throughout the land: Alaskans have the last chance to do it differently, to profit from mistakes made in the South 48.

MORE

The phrase was used most often by those from the lower states as they addressed various publics on such matters as Building the Pipeline.

Soon it will be a decade since those first "riches." How and where that money was spent is not the issue here. But attitudes of people, particularly leaders, and how they've approached the ideals are very much the issue. Alaskans, for all their vaunted strengths, are also very human. They, too, can be and often are greedy, shortsighted, impulsive, unwilling to consider all the options. They find it difficult to live up to their own statements of how to achieve a better society.

But perhaps this time the leadership--you, in fact, --can help guide the people toward fulfilling lives. You will certainly be asked to help make life a little easier for Alaskans, and that, if done with wisdom is a valid consideration. But I fervently hope that totally cutting out various taxes which support our necessary institutions and government functions will not be the way you ease their lives.

The evidence is everywhere that when people do not pay their own way, when they are unaware of costs for services, when they have no grasp of what it took to make or build something--that they put little value on the "somethings" which come with no effort and that they also lose in strength and character.

On top of that, if costs of living are reduced too greatly in Alaska, it will open the flood gates for all the freeloaders who want only to be in on the "freebies" but not to contribute to the growth and stability of the state.

And finally, I would ask that you look to ways of enhancing what we have rather than getting more or of setting up the machinery which would lead to the "more and more" syndrome.

So--with that for background, here is my suggestion:
Establish a percentage of the income from the Permanent Fund to be available on an annual basis to Alaskan communities for use in connection with cultural facilities.

A formula would be developed for communities according to population and could be weighted in a manner to be more helpful to those communities with less economic viability.

The funds would be available on application and would not require matching in kind or money. A community would have to demonstrate fiscal responsibility in use of the funds and show that a cultural facility (as defined below) actually exists or is actively being planned.

There would be no "strings" on how the money was used for the facility. That is, the only "approval" of use would be to show that the money would be used for some aspect such as: design for a new facility or complex; contribution to actual construction of such, maintenance or programming for the facilitiy or addition of a wing, etc; acquisition of art works or museum material; salary for curator/director; assistance in retiring debt on existing facility; furnishings for such a facility--new or to upgrade; sponsorship of a program recognized as valid for the type of facility--i.e. instructor in management of such an institution, artist in residence, special performance assistance to outside group, etc. These could be specified or it could be shown what would NOT be allowed.

The facility would have to be truly representative of public interest and use.

MORE

DEFINITION: A cultural facility is defined as a facility or complex which has its principal function serving the arts activities of the community through theatre, concert hall, museum, and/or gallery; with additional compatible uses such as conventions, community meetings and library services as determined by each community.

The money could be allocated through the offices of: the State Council on the Arts and its member local arts councils or an authority or commission set up especially for this matter--always keeping in mind that the local interests get true representation. The object would be not to add another layer of government, but to safeguard allocations so that communities would indeed have local authority and that projects be valid.

The percentage of the Permanent Fund thus allocated could be invested in a separate account, thus earning and enlarging while applications were pending.

Penalties could be established for misuse of funds. An annual application date would have to be determined for such applications and grants so that the amount available could be related to requests.

There is extensive justification why this is an important consideration. A 1975 report found that 93 per cent of the adult American population felt that cultural activities and facilities were important to their lives, and the growth of the arts has reflected this appreciation.

A professor interested in the views of the average working person on art talked with 400 blue collar workers--maids, clerks, mechanics, bus and truck drivers, cab drivers, secretaries, hotel desk clerks, waitresses, carpenters and street laborers as they went about their daily tasks. Their opinions were written up in the study "Opinions of Working People Concerning Art." Some critics hailed it as the first "tell like it is" audience "pulse feeler" done in a long time.

Generally, the professor said, workers interviewed believed that art is necessary to the enjoyment, fulfillment and pleasure of living. A majority also think that tax money should be used to fund artists and art projects. "We found that contrary to the general belief, they(man and woman on the street) like art, enjoy it, feel it worthwhile, know much more than we (the arts world) give them credit for...and of course, we discovered what we should have known all along: that most of them dabble in it themselves, as Sunday painters or collectors of everything from antiques to Ming vases, and coins, stamps--that they act in neighbor hood groups, sing in choruses and quartets or save their money for tickets for special performances of plays, operas, ballets--which appeal to them."

As a bartender told one interviewer: "Art brings most of us closer to what we really are and what we feel."

A similar survey done in the Anchorage Borough three years ago revealed the same points of view and willingness to help support arts projects.

The preamble to the bylaws of an 11-community Cultural Facilities Development Committee reads:

"We who are involved in the arts know the importance of cultural facilities to the life of a community. We also know how stifling the lack of such facilities can be to cultural growth. Our task will be to make the voters of the state aware of what cultural facilities can contribute to our communities. Cultural centers can become the focal point for a variety of community activities, providing entertainment,

cultural enrichment, recreation, instruction and social opportunity for all the people in the community as well as for those who visit our villages and cities.

Along with Alaska's rapid economic development, there is a growing awareness of Alaska's renewable human resources. Civilizations are remembered for their lasting contributions to the arts, humanities and mankind. By providng a cultural home for the arts, artists and Alaska's ever-growing arts audience, these centers proposed for Alaska will contribute to such an endowment. "

If ever there were something which would contribute to and enhance the ~~the~~ Quality of Life in Alaska, participation in creative endeavors is it. And having a facility where it can happen, a situation usually beyond the capabilities of any but the wealthiest of cities, would be the catalyst..

We CAN do it differently in Alaska and this is one exciting, beautiful way. And we DO care how they do it Outside because that's where we learn, both what to do and what not to do.

Thank you--

Betzi Woodman

Proceedings

of

The House Special Committee on the Permanent Fund

PUBLIC HEARING

September 15, 1977

Anchorage

Rep. Clark Gruening, Chairman

Rep. Terry Gardiner, Vice Chairman

Rep. Ernie Haugen

Rep. Russ Meekins

Rep. Bill Miles

Rep. Leo Schaeffer

Rep. Rick Urion

GRUENING: Good morning. We'll call this meeting to order. We've got a list of people that want to testify and I think there are some that are not on the list and we'll just take you down on a Quaker basis. You raise your hand and come forward and testify. Don't let the ads put you off. I saw the ad in the paper that this was called the House of Permanent Fund like the House of Pancakes. This is the House Special Committee on the Permanent Fund.

Representative Ernie Haugen on the committee from Petersburg told me this morning that he heard on the radio that this meeting was to hear from you folks on how to spend the fund. I can assure you that is not our intention. We want to hear we can preserve that fund and we are just as interested in what you don't want the fund to do as what you want it to do.

We had a very interesting hearing in Fairbanks. We heard a lot of what people wanted it to do and what they didn't want it to do. Since it's your fund and before we actually draft specific legislation for consideration of the whole legislature, we want to hear your philosophical approach. So this is---don't feel you have to be an investment banker We are really talking about philosophy today.

Also with the committee is Representative Bill Miles

and Representative Russ Meekins who is on the committee will be here shortly. Our A.A. to the committee is Mike Doogan and he may be asking some questions today. Do you have any statements, anybody, that you would like to make? OK, our first witness is Senator Joe Orsini.

ORSINI: Mr. Chairman, members of the committee. Thank you for the opportunity to make a little pitch here. I will be brief. My concern is not at this point with what the use of the Permanent Fund is going to be, but how the uses are determined. To a large extent, the legislature will undoubtedly set broad policy guidelines, but the actual management of those guidelines will be done by some body or some group of people and I'd like to address my remarks to how that group of people come into being chosen.

The Permanent Fund was overwhelmingly adopted by the public last year, as we all know. I suspect that your hearings are turning up a variety of opinions when it gets down to the specifics of how that money is going to be used. I would also imagine that probably there isn't a great deal of coalescence of public opinion at this point and people are kind of vague about it except for those people who happen to be in investment or other kind of industry that is directly involved with it. I would also suspect that, despite the good efforts of this committee in trying to get the issue before the public, that until something really happens or

until the fund is viable such that the impact is being felt substantially in whatever corners that money is going to be spent that the general public will not become involved in this. I could be wrong, but I think that is likely to happen.

On the other hand, people who are knowledgeable about such things as large investment fund maintain that those who control this fund will be extremely powerful in a political-economic sense in the state and probably to the extent that the size of the fund in the next 5-10 years is probably unprecedented with respect to any other state in the Union as a proportion of our state budget. This concept of the power of the fund manager will probably come to pass.

For these reasons, it is my opinion that the managers of the fund ought to be people who are directly accountable to the people, the voters and the general public of the state as opposed to being selected by some other secondary method --- as a panel selects potential people from whom the governor selects. This is sort of a circuitous approach which, in my opinion, ought not to be implemented. I think that one man ought to be directly accountable to the public. As the public sees a need for change in the way in which that fund is invested or used, that change will be reflected in the debate when these people run for their office. And, of course, it

ought to be a full pay, full time office, not just a token or a commission, but a full time, full pay position. The people that run for that, I would think, the public would demand that they have some ability and expertise in handling money in that it is more strictly aimed at than, say the legislature, which is a very broad type thing.

I think the problem with, say, a gubernatorial appointment is that every four years the governor runs for election and there are many, many issues that the governor has control of or discusses and the Permanent Fund will be lost in so many other issues that the governor is involved in --- any governor. I think that this is important enough that they ought to be separately elected.

The frames of the constitution, the state constitution, of course, determines that the governor is the one that has the appointing authority and there are no other elective officers on a statewide basis other than the legislature. But I think that the constitution was framed more than 20 years ago and the state has changed its standards. And we are into an area now, with the oil starting to flow, of a yet greater change than we have seen in the past. And this change should give one reason to take another look at the constitutional concept of only the governor being elected and look at those kind of offices that are perhaps of genuine statewide importance and have statewide input for that particular concern.

That's really the extent of my testimony. I would urge you to take a look at the concept of having elected people managing the funds. It can be done without changing the constitution as long as the governor has some choice, you could have an elected official---is what I'm told by the Legislative Affairs Agency. Of course, the cleanest way is a constitutional amendment.

GRUENING: Thank you, Senator. Can you stay for a few questions? Any questions from the committee? Representative Haugen.

HAUGEN: Senator, how did you set up the---you mentioned qualifications for the fund manager---that it would have to be people with expertise. Have you got any idea as to how you would qualify that? How would you set these qualifications up?

ORSINI: I wouldn't. I would let the public---presumably ---running for the legislature, there is---you don't have to be particularly have to be an expert in anything. The legislature deals with all kinds of things.

I think the Permanent Fund is different. It is a function of investment. I would think that the public would always

vote for those people who at least have some sort of ability or have evidenced some sort of experience in finance. Maybe he's been a banker, maybe he's been a union fund manager, maybe it's been a whole raft of things that have become involved in the financial implications.

HAUGEN: But you would first have the public set up the background essentials and then ...

ORSINI: No. I think it ought to be an elective office, period, with no other than---I would have no more restrictions on that office than I would have on an office of the legislature.

HAUGEN: Oh, I see. I thought you were implying that you wanted restrictions.

ORSINI: No. I think the public, as the public, will vote for those people who have some of those qualification.

HAUGEN: OK, thank you.

GRUENING: Mike.

DOOGAN: Senator, have you given any thought to whether these people should be elected on a statewide basis or by region or anything like that?

ORSINI: I would support a district basis to assure that there are a variety of interests. I suspect that you are hearing from various parts of the state has borne that out. That different parts of the state do have different concepts as to how that fund should be used. I think that on a district basis it would be preferable. It may be, my suggestion would be some combination of existing election districts where you group---an individual would run for a seat that would be comprised of several election districts so that you wouldn't have the new election districts to try and fit in.

GRUENING: Senator, you hit on probably one of the more difficult issues for the legislature and that is the issue of control. When you have a sizable fund, people are concerned about who is going to control it. It occurs to me that what we'd have there is---we'd be establishing two legislatures to the extent that you increase the size of the Permanent Fund, you'd have a competing legislature. And whether you needed a constitutional amendment or not, I think you do. Do you see any problem with establishing essentially two

legislatures and---with a very strong executive in this state? Wouldn't that kind of tip the balance in the constitution where we have a legislature, although not, maybe not a match for the strong executive, at least it is one body and has the power of the purse. This might fragment it into two. Have you considered that aspect of it?

ORSINI: Mr. Chairman, I don't think you'd have two legislatures. I think you may have two legislatures if you, for example, took certain legislators and put them into Permanent Fund managers. They would almost be operating a separate legislature. But this is a separate body and this body would still be subject to the law as passed by the legislature and signed by the governor. I would presume that we would have laws of general conceptual of appropriateness to the way in which the Permanent Fund is used and this group would have to operate under those laws.

But still, like any law, whatever executive authority it is has a varying amount of leeway, depending on how tightly those laws are written. I don't think you'd be---you'd have another group just as you have the executive and you have the judiciary and you have the legislative groups now. This would to some extent, with the more narrow confines, I suppose, would be almost a competing group who would have also direct public accountability. But I

don't think you are getting into a separate legislature. A lot of it depends on what the ultimate will of the legislature is with respect to the types of use this Permanent Fund is put to.

Basically, if the legislature decides anything other than maximizing a safe return on the investment, then you are subsidizing some group. It may be homeowners, it may be investing people, it may be fishermen, it may be farmers, it may be anyone of a number of groups, whether a narrow constituency or broad statewide groups. It is still some special group or a series of special groups. As opposed to having maximizing returns, having them coming into the general fund for use of legislative determination of how the funding should be spent.

GRUENING: You raised an interesting point there. You were saying that, if I understood it correctly, that when you are dealing with anything but a sole criteria of maximizing income, there is usually some subsidy involved and if you are going to do that there ought to be some equity or some representation.

In other words, if you are going to dole out subsidies, it ought not to be done, let's say, at the decision of some expert, but rather somebody that's responsive as an elected official.

ORSINI: Yes.

GRUENING: Well, let me toss this out as an alternative to that. The extent that you get into the programs which involve subsidies, what do you think of handling it as we do now in the general fund loan programs, in that we establish them out of the general fund, that with the Permanent Fund, you establish that criteria of maximum---of conservation of principal and return the income.

In other words, rather than do everything you have been doing with the general fund, put the Permanent Fund off to the side and say, "OK, we're not---that's the one fund that is not going to be, let's say, doled out, as, say, political pressures dictate, but will be at least for the short run set aside for just preserving capital and producing income." In that way, you don't have that accountability problem that is difficult when you do get into subsidies.

ORSINI: I think I have been on record as personally supporting that concept. Certainly in the short term. As the Permanent Fund grows and as the public becomes more aware of it, you will make a policy at some point. But I think that in the near future it ought to be managed for maximum return, maximum safe return on investment.

GRUENING: Thank you very much. Any other questions? Thank you, Senator. Our next witness is Robert Rutherford. Did I pronounce that right?

RUTHERFORD: Yes. Mr. Chairman, members of the committee. Thank you for the opportunity to appear. I'm not exactly--- consider myself very experienced with these things. I hope I understand the intent of the hearing.

My business, as you may know, is a consulting engineer working primarily with the electric utilities throughout Alaska. So, most of my experience in Alaska since I came here in 1950 has been related primarily to the electric utilities industry. Along the way in working with these utilities, of course, the business of providing money for the development of electricity, that unique energy that really contributes to the quality of life, is one of the things that we are constantly dealing with and I have some thoughts to share with you and I hope along the way that I can understand the intent better so that I can add to this with some written testimony which I can supply later. Will I have the opportunity to submit some things in writing later?

GRUENING: Yes. And I'd like to say for everyone here that we'll accept written statements any time until the time

of the session. There are kind of informational booklets the committee has prepared with a questionnaire on the back. Feel free to help yourself to that and, Paul, why don't you take a stack of that so people don't have to come up. Grab them and they can help themselves. Go ahead, sir.

RUTHERFORD: Let me recite a few areas where it's occurred to me that the Permanent Fund or something similar to it, at this point, I'm just trying to understand what some of the concepts for it might be, what the committee might be thinking about it. Let me talk about these briefly. There are several areas where I believe that the use of the Permanent Fund might be valuable to Alaska.

First off, I'll start out with saying that I believe that my understanding of the Permanent Fund that its use should be on a basis where it's returned. In other words, that it is not intended as a gift, that it should be used in a manner that it is returned to the Permanent Fund if it is loaned on various bases. My own personal feelings are that the fund should be used in that manner. So that it does not definitely become part of the system of grants, perhaps.

GRUENING: Incidentally, that's a constitutional requirement,

the way they---it can only fairly be read to preclude grants. It would have to be income producing.

RUTHERFORD: That probably was in my head from back a ways and I'd forgotten it was already a constitutional provision.

One of the areas where I believe the fund could be used, I like to talk about a minute, is perhaps might be considered as marginal in the sense of whether or not it might be a grant, but, let me explain. There are a number of projects that I have seen as potential in Alaska which are the nature of being somewhat unconventional because of the unique requirements of some Alaska situations. So there are some areas where ---I'm speaking of the electric utilities business where the utilities could use some support for projects that engineers such as myself believe are feasible projects and good projects, but at the same time they may be somewhat unconventional and on that account may have some difficulty in obtaining funding from the more usual sources. I'll give you an example or two.

There has been under study by the Alaska Power Administration some ways in which electric energy can be brought to some of the small villages of Alaska on a basis that, perhaps, is a little more reliable and feasible than some of the present

systems that are in use, mainly small individual generating plants scattered around in the various isolated villages. In an effort to evaluate whether there are some alternatives to that, and in particular see if there is some possibility of being able to deliver forms of energy that can displace fossil fuel, the Alaska Power Administration has in this case asked us to do some studies relating to interconnecting villages with transmission lines, or lines of some kind whereby a group could then receive energy from a larger central supply source or perhaps a small hydroelectric project. And of course, as you know, hydroelectric projects are determined by where the water is and where there's the head and invariably it's necessary to take that energy and deliver it. So, in the small village communities, the only alternatives are to figure out a way to interconnect.

There is a concept that I have presented in these reports that is not unique in the world, but it is somewhat unconventional and it's what I've called a "one wire ground return system" of transmitting electricity. It's been used in many parts of the world. The technology is well known. It's not something that's R & D. It is unconventional. There is a small report here that's been prepared suggesting a demonstration project along the Kuskokwim, perhaps centered around Bethel, to interconnect some of the villages that are now supplied primarily by little individual

generating plants. In some cases each home has its own plant. In some of the villages there is a centralized system.

For such a project, I'm convinced that eventually a project of this kind can probably be financed by REA funds, for example. But at the moment its unique characteristics is such that REA says that, well, it isn't exactly according to our specification, our standards. I've had some nice discussions with them, for example, and I can see their engineers believe me. But there's a few hangups that relate to the uniqueness of the system and I'm suggesting that, perhaps through the use of the Permanent Fund and whoever operates it, that some of these unique solutions that may be adaptable to Alaska be given consideration that perhaps some of this fund could be used as a pilot project.

Which I'm saying again is not R & D. It may be unconventional, but I'm convinced would be feasible. You could then produce what you might call a yardstick . That word has been used in other areas to say this is a feasible project. And that means generate additional support from such as REA by saying, "Here's a project that works." This is the way it's doing. We'd like to build a lot more of it.

In the case of REA, the whole philosophy behind it--- their own program is such that, to me, it's a natural to do

this kind of thing. But it does need a little yardstick, something to get it going. Maybe the Permanent Fund, as an Alaskan fund, can help produce a yardstick program that is required for Alaskans because of the unique or unconventional nature of some of the solutions we have to deal with.

Along with this one wire scheme, it just happens also that in the Bethel region there are some interesting records regarding the wind. There is some possibility for the use of wind as power to supplement diesel generation. Because the delivery cost of the fuel, etc., are pretty high, why the cost of energy in those regions are exceedingly high. And even though wind power generation is a very high-cost scheme, basically today, some of the figures we have digested make it look as though it might be useful if it were part of an integrated system where it's not the sole source of energy, but simply used as a supplement to displace higher cost diesel fuel. So the little report suggests the possibility of adding a little wind generation to find out if that is true.

In another area of the supplying power, electrical power, to small villages, you are all acquainted with AVEC, I think most of you know about the Alaska Village Electric Co-op, which is attempting to do the job throughout Alaska, using REA money. Practically all the clients that are in use are diesel clients isolated with

the same problems that I'm talking about here. I think in some cases we can show that interconnection can help that.

But there are some other things that can be done besides the one wire line, for example, and that would be some improvements in the design of diesel electric generating equipment. Here again, there are a number of things that are available in industry. We're not talking about R & D, but we're talking about something that would be a little bit unconventional. Somebody would have to spend a little bit of money to put in the first step.

One of the areas I'm talking about is the operation of diesel electric equipment. One of the big difficulties in these isolated areas in operating the equipment in a reasonably efficient mode and with the electric load bouncing up and down over the daylight, nighttime hours, it's difficult to keep a generating unit running at an efficient load. So, conventional designs of such equipment, having been developed over the years, using the trade-off of fuel cost and other things that generated those designs by the manufacturer, have resulted in designs that are not necessarily adaptable to some of the problems we've got now resulting from high fuel costs and the very isolated nature of some of these systems. Here again, we believe, and there are other engineers who would

go along with this, I'm sure, that there are some modifications of standard generating devices that can be developed, put in a pilot project and shown to be workable. Perhaps that is something that could be done in some other ways too, but I'm using it as an example to say there are some solutions that I believe, as an engineer, are adaptable to Alaska conditions where they might not have been thought about or even useful on the basis of the trade offs in other areas. And perhaps the Alaska fund, Permanent Fund, can look with a different eye on the things that are peculiarly Alaskan in terms of some of the solutions that we need to find.

Getting away from the pilot nature or yardstick nature of projects which the first ones I talked about are, I would suggest some other areas where I believe the Permanent Fund could do some great things for communities of Alaska in energy. And that would be for the fund to participate in some manner with communities in funding for a renewable resource project such as hydroelectric development. I don't have to tell you about hydro---I know that Ernie has been pounding the table for hydroelectric in the communities of Southeastern Alaska for a long time and I'm sure that he would feel that this Permanent Fund could be a tremendous aid to the community to that area. What I'm suggesting is perhaps there is three modes of participation that might be considered.

One of them, of course, would be just a complete funding of a hydroelectric project on a loan basis, long term at appropriate interest rates, lower interest rate, loan to accomplish a hydroelectric project. Through the use of the Water Resources Revolving Fund, which has been operating for a year or two, some communities have been able to get front money to investigate such projects and get them up to the point where it's a go or no-go proposition and then they are faced, of course, with going to the bond market or looking for other sources of funding to actually accomplish the project itself.

And that's where I'm suggesting that the Permanent Fund could participate, either complete funding, perhaps partial funding, and maybe there would be other sources of money, but there would be mutual benefits in lowering interest rates, etc., if the Permanent Fund could participate with a portion of it.

And perhaps the third way would be using the Permanent Fund in a guarantee mode of some kind to guarantee a project rather than using the money directly, backing up a community in the offering of a bond with the guarantee of sorts.

Perhaps I'm influenced to some extent and been sold by the fact that I've been working with REA for a long time, the federal agency. And today they used those three modes for

working with utilities that they finance.

One is a direct loan program, in which, as you know, I'm sure they have two interest rates that are used. They have a certain amount of the money that's loaned out at 2% interest on a 35 year basis and they have some other direct loans they make at 5% interest on 35 year loans.

And they also have a participation program with other lending agencies where they loan part ot the money.

And they have guarantee programs.

I'm suggesting that perhaps the Permanent Fund could look to communities for help in energy projects in a similar manner. That there may be something really worth looking at there for the use of that Permanent Fund.

To be a little more particular about renewable resource projects and what it means to Alaska, the hydroelectric development has one thing about it that is---well more than one thing, but---the thing I'm referring to, one thing about it that is quite different than other energy projects and that is that once it's built, its cost, for all practical purposes, do not escalate. And as a practical matter today, we know that almost everything else has been escalating at a pretty substantial rate and most of the economists that make any kind of forecast at all agree generally that escalation is part of the real world and is some-

thing that ought to be considered when you compare alternate projects of one kind or another.

This is one very important difference between the hydroelectric development and alternate energy, electric energy supply systems that you fuel. Because, as we all know sorely, fuel costs certainly have been escalating. And it looks like they're going to continue to escalate because of the fact that we're running out of fuel. Just for the purpose of finding more of it and developing the lesser profitable fuel resources, we know that we are looking at escalation.

On the other hand, the hydroelectric project, once it's built, the sun does the job. It's solar energy, really, and it's free. The falling water is there, it does not escalate. So that obviously there are tremendous benefits to a community when hydroelectric development can take place and displace the fuel they might otherwise have to buy at an escalating rate. And I've made some estimates over a period from now to the year 2000 and the differences are startling if you compare and if you assume some reasonable escalation rate and make a comparison. So, while the support of a project of that kind, I'm suggesting by the Permanent Fund, would be on a loan basis, you'd get your money back like any other loan, it would have a tremendous spinoff on the community itself and obviously

the state in terms of number one, electric cost to the community, number two, stretching the fossil fuel resource because it displaces what would otherwise have to be consumed in the fossil resource.

Another area that the Permanent Fund might find use, and this one is perhaps a little more way out, pardon the expression, I think it is real however and there may be some opportunities for the Permanent Fund to be used this way and that would have to do with some more major developments of energy systems in Alaska. Such as, the support, perhaps through the use of guarantees, I'm not suggesting direct loans in this case, but that it could be very influential in the feasibility of such projects. A major project such as a generation of transmission system for Central Alaska which would extend from Anchorage to Prudhoe Bay. As come of you may know, I've suggested electrification of the gas line and oil line route. I believe that it's feasible because the energy displaced by such electrification has a pretty fancy value today. And if you look at the value of the energy you displace, that would otherwise be burned in the simple transportation of the energy through Alaska, you can show that the electric isolators, that the electric generation would be feasible just from an economic point of view. And of course it would again substantially impact those fuels which---the ones I'm talking about now are oil and gas.

Now where do you get the electricity to do this? Well, there's other fossil resources such as coal. I believe that coal fired electric energy can probably be feasible to displace oil and gas. Coal at the present time---and I'm thinking about fuel is at a lower priority than gas and oil---and so it might be useful to displace that oil and gas.

Obviously, hydroelectric energy could certainly be used to do the job. It does also appear along the way, though, that the hydroelectric project that we are looking at today in this region---which in this case would be like a Susitna development---that most of that hydroelectric energy can actually be absorbed for other purposes in Alaska. It can be used by the community for their normal load growth of Anchorage and Fairbanks and the Central area. I'm suggesting that, if projects such as this catch on in any sense, that perhaps the Permanent Fund can be helpful in improving the feasibility of such a project.

A similar project could be accomplished in Southeastern Alaska. And this is one of the concepts which was talked about many, many years ago by the Forest Service when they made their little study of the water power of Southeastern Alaska. They suggested the possibility of an energy intertie throughout the whole of Southeastern Alaska through the use of sub-

marine cables in many cases because of the rugged nature of the country. And I'm saying now, that while this concept may be slightly way out, there are developments happening in Alaska which very likely may bring such a suggestion to the fore again. But because of the Alaska conditions that exist, it's going to take horsepower to make it go and that Permanent Fund is certainly---it's going to be a device that would impact projects of that nature.

And I'm simply saying that I believe those projects are likely to show feasibility as reviewed by Alaskans. We Alaskans do have some difficulty communicating with other parts of the financial world on some of the things that are unique to Alaska. And this is an area where I believe the Permanent Fund, using good judgement ---I'm not saying do anything silly---but because there will be Alaskans involved, they're probably in a better position to evaluate the kinds of things that I've been talking about in Alaska terms and arrive at a conclusion that says it's a good deal where the general financial market that we usually look to might not be able to evaluate it that same way and thereby something might go begging that really is a good project. The Permanent Fund, to me, would seem like it could perform a valuable function in supporting some of those concepts when they develop.

I guess that's about it and I'd be---I'm intending to put a little more of this in writing and perhaps you can tell me what

portions you feel at this point in your hearing would be appropriate related to the Permanent Fund. I haven't been at any of the other hearings so I don't have the benefit of that.

GRUENING: Well, thank you very much for your interesting comprehensive statement of the possibilities of Permanent Fund participation in energy development. I think we'd like very much to have your written statement. You might include in it some of the reasons REA funding isn't possible for these projects and any more specifics you have on how the financing might work.

RUTHERFORD: Yes, I have some of that and I can do that.

GRUENING: Are there questions from the committee for Mr. Rutherford?

HAUGEN: Well, I could ask a lot of questions but I think it would be a repetition of what he said.

Principally, what you're saying is that maintaining the idea that the Permanent Fund principal will remain but, if those projects could be financed on a long term, low interest basis, the state would get its money back, it would be just

the thing in the early period that---we're using hydro only as an example---the early costs are the ones that put most of us---I'm talking about Wrangell, Petersburg area---out of business if we could have that money loaned to us on a long term, low interest basis say at an early cost of 3 or 4% for the first ten years, knowing how the state fund managers in other funds operate, they want, of course, to obtain the maximum yield.

But, farther down the road, when these utilities got on their feet, they could probably have an accelerated rate of interest. They jump it from 4% to 5% and 5% to 5½% and that of course depends on the size of the project to take. My idea was to have one that had 30 or 40 years of life which, even if we ration it out on a 6% annual growth rate, the state would still get a good return on its money in the long run.

I'm not talking about any giveaway projects, I'm talking about good projects. That if they could get this foot off of the ground and the state would get its money back, we'd retain the idea of what the Permanent Fund is. It would do all kinds of things. It would save the consumer. It would maintain the interest of the consumer down the road if we're going to displace these Mickey Mouse projects we've got now with diesel power. It's just the peaking load---you're acquainted with our problem in Petersburg that throws the rate schedule out to the point that you never

get out of the woods as far as debts are---in fact the peaking power costs you more than the primary power. I appreciate the comments that you've made to the committee and it's along the lines I've been thinking. I look forward to some more of it.

RUTHERFORD: Well, I say again that I believe that the Permanent Fund can perform a unique function and I know there's lots of ideas for the use of the Permanent Fund, so whoever manages that fund has got a problem of spreading it around the state in a fair and best manner---for the best interests of the whole state.

But, when you look at the communities themselves in general and potential spinoffs, I think the energy area is one place where the use of that fund can result in benefits that will spread throughout most of the population of the state. There are particular problems related to Alaskans and now Alaska is going to have a particular fund that's also Alaska's. And I'm just suggesting that right there we have an opportunity to do some of the things, that we have a little difficulty convincing the rest of the world, that are feasible. Through the use of the Permanent Fund, I believe you can yardstick some stuff so we can get some more

money in besides. And since the Permanent Fund can perhaps be used to really generate additional spinoffs to a lot of the communities.

GRUENING: Any questions? Thank you very much.

RUTHERFORD: Thank you.

GRUENING: Our next witness is Carl Steeby.

STEEBY: Thank you, Mr. Chairman and members of the committee. Thank you for the opportunity to be here, appear here. I do not have an entire text or anything, but I would like to offer some of my thoughts to the committee on the Permanent Fund.

I have asked quite a number of people the question what's the purpose of the Permanent Fund to see what their thoughts where when this Permanent Fund was set up and, needless to say, I received numerous answers, mostly to curb legislative spending, to help all Alaskans, to have some money left when the oil runs out and a few had the same opinion I did when the Permanent Fund was set up. It was to mainly develop renewable resources from the income of non-renewable resources, whether it be oil, gas, minerals, whatever they might be.

I was at the hearings Saturday over at the Anchorage Westward and listened to Dr. Gordon and Dr. Bergman make their presentations and, really, I couldn't agree with either one of them and their thoughts on the Permanent Fund. Dr. Bergman split her ideas straight down three different ways. She had three scenarios, you may remember. One was spend it as you get it. The other was the gilt-edge investment. The third was a development fund.

I don't subscribe to any of these scenarios, per se. I subscribe more to all of them. Not necessarily spend it as you get it. Maybe spend the income that would go to the general fund for things like parks, recreation, campgrounds, pioneer roads to the attractions and so forth.

There was several mentions of the $900 million that disappeared. I might say that, for personal reasons, I had to leave the state from 1963 to 1973. I first came to Alaska in 1942 and have been here most of the time since and in 1963 our roads were in a terrible mess. You couldn't find a campground anywhere, you couldn't find any rest areas, you had to go by the nearest tree or anything else. When I came back in '73 we had campgrounds like no other state has that I know of. They're everywhere, there's lots of them, we need more. They're crowded. But, a lot of that $900 million did some

good. It wasn't all rat holed as Dr. Gordon said.

On the second scenario of Dr. Bergman, I believe that we should have a portion of the Permanent Fund go into gilt-edged investments. These would be long term, high interest bearing investments that would go into our general fund, the income, and reduce some of our taxes. Everybody all over the state--- the Permanent Fund is supposed to help everybody and I think that we could reduce our taxes from the income a certain percent. I'm not offering any suggestions of what percent of the Permanent Fund should be used in gilt-edged investments. I think that would be for somebody that knows a little more about economics.

Thirdly, the development scenario, which I subscribe to wholeheartedly, is long term, low interest loans or participation loans or guarantee loans as Mr. Rutherford pointed out.

And I might say that I am an engineer with Robert W. Rutherford Associates, so I---however there is no collusion. We haven't talked together or anything. We didn't even have time to prepare a text.

But these three different methods of financing projects should be considered. Again, no giveaway program---it has to be returned to the state. And in the development, I think that we should consider first our renewable resources for these funds.

The world is going hungry now for protein. We have a lot of bottom fish. Somebody is going to develop the bottom fishery.

Who is going to do it? We need more canneries. We were flying fish to British Columbia, to the lower 43. They were telling me the other day they lost a planeload of fish flying them from Yakutat to Anchorage. We need more cold storage plants. Timber Resources. A lot of the smaller communities could develop small shingle mills, veneer plants, finished lumber. Who's going to do it? Are we going to do it or are we going to let the Japanese come in here and do it---take all of our lumber, our bottom fisheries, build our canneries. Or are we going to do it ourselves?

And, another renewable resource that goes to my heart is the hydroelectric development and I would like to say right along with the hydroelectric development, fish hatcheries. You may wonder why I combine these two, but I have worked from Kotzebue to Ketchikan and this past summer I have lived in nearly every community in Southeastern Alaska from Yakutat to Metlakatla many times. And although they had an excellent fish run this year it was a very dry year in Southeastern Alaska. There were a lot of smaller streams where the salmon were dying in the mouth of the stream because there wasn't enough water to get up to spawn. And I'm wondering what it's going to be

3 or 4 years from now when those fish that would have spawned normally came back.

In Petersburg, there is a hydroelectric plant. The water from the tailrace is utilized in the state fish hatchery. If it had not been from the Petersburg hydroelectric plant, they would not have had enough water to operate the fish hatchery. Also, fry from the fish hatchery was put into streams where the salmon could not get into spawn. So, in my way of thinking, we can build hydroelectric plants and fish hatcheries at the same time and we can go Mother Nature one better. We can do a lot of things to enhance the fisheries as well as develop hydroelectric power.

At the present time in Southeastern Alaska, the average fuel costs per kilowatt hour of energy generated is running a little over 4¢ a kilowatt hour. Nearly all the smaller communities are using diesel electric, while the largest communities are using diesel because of the front-end money. It's hard for a community of, say, a thousand people to go to the market and say we would like to borrow $8 million to build a hydroelectric plant. Well, that's kind of unreasonable for a banker to say here's a thousand people that's come in here and wants to borrow $8 million. They're out of their, way out of their league. Personally, I start pulling my hair out when I get my electric bill and I'm paying about 2¢ a kilowatt hour for it delivered to

my home.

And these people are paying over 4¢ now just for fuel. And in 1995 they're going to be paying over 13¢ a kilowatt hour for diesel fuel. I maintain that if you can build hydroelectric plants at fuel replacement costs at the time it comes on the line, it should be built. And I would like to have the committee really dwell on this development portion of the scenarios that Dr. Bergman set forth. And I think we can use some of the income, say, from the low interest we get on our development programs or the high interest from our gilt-edged investments to even build a few amenities for Dr. Gordon, but I would say more in convention centers and that sort of thing and not opera houses and golf courses. Thank you.

GRUENING: Thank you. Were there any questions from the committee? I just have one. My brief experience with looking at hydroelectric projects, at least explained on paper, is that they are expensive. If we're talking about a $2 billion fund and we consider all the uses that people want the fund to accomplish---like in Fairbanks it's everything from artifacts to whales, literally, yesterday.

Buy, hydro wasn't mentioned, but I know in other regions

of the state it's probably more feasible and it's popular. But, how many projects do you think the fund could get involved in and still accomplish some of the others here. You see a limitation in terms of the number of hydro projects that the fund can get involved in.

STEEBY: Yes, that's why I brought up the three different types of financing. Possibly if you had finance money, there wasn't a demand for it, you could go in and make a complete loan package for a hydroelectric development. Now, I'm talking more---the smaller outlying villages, Dillingham, Kodiak, Petersburg, Metlakatla, Hydaburg, Klawack, where ever. More so I think than I would in actual development of Sitka.

Like I was preparing the energy cost. The rail belt area along the pipeline I feel has benefited economically from the oil and gas business. This same economic enhancement in this area has made a hardship for the rest of Alaska by increasing the wages, the prices of fuel, one thing and another that people have to pay. It has done nothing to increase the price of fish or how much a cant of lumber or something like that is going to bring in. But, still they're paying the higher prices and one thing and another. It hurts them and it is more or less, I think, helps the Anchorage-Fairbanks area.

And to make it a more equitable thing, I think the fund should be spread out and not one huge hydroelectric plant for one specific area of the state, unless there is the money available. But, if you have a limited amount of money, I would say participation. Pay a project off, a small project, say in Petersburg, maybe $8-$10 million. Maybe you can say well, we'll loan you $3 million; we'll guarantee $6 million; we'll guarantee the loan. You find the money someplace else, but we'll guarantee it. And with that guarantee, they could get a whole lot lower interest rate from somebody else. I mean, it depends on how much money you have available for the different projects and it would be a matter of alloting the money throughout the state.

GRUENING: Thank you. Are there any further questions from the committee? Thank you, Mr. Steeby. Our next witness is Peter Van Dilla, if he's still here. OK, Betzi Woodman.

WOODMAN: I have mine written up because if I were to just talk, I would spend all the rest of your hearing time because of---this subject has such broad interests. I'm not an expert in investment and management things and I won't address myself to that particular of it, except to suggest

to the committee that there be an investigation of the state bank concept, that is, and the Dakota is not going to like this, but I don't know whether it's North or South Dakota, has it. I know a little bit about it. But, I do have a statement and I'll read it for you. First I'll identify myself.

My name is Betzi Woodman and my profession is writer. I first met Alaska in 1953 when my husband was assigned here with the Air Force. We extended his two-year tour because we had fallen in love with the place. After a brief hiatus in California where he decided to retire from the Air Force after 20 years service, my husband and I came back to make our home here in 1959. Since then, our three children and their children also live here so we have a broad stake in this, our adopted home. I have been involved in numerous volunteer activites over the years and, after writing for both newspapers in Anchorage, I chose at the end of 1963 to become a freelance writer, which profession I still follow. The work has taken me around the state often and brought me in contact with many people. Much of what I present here has been discussed with several of these persons who concur with my thinking.

You will be besieged by suggestions on where to invest the Permanent Fund, how to spend its income. Choosing among these suggestions will be a most demanding job and I hope that you can maintain your thoughtful approach and not succumb to impulse or sudden pressure of a particularly vocal group.

When the state received the then-unprecedented $900 million in oil and gas lease bonuses in 1969, the last Gene Guess convened a series of seminars to get public opinion on how to use the riches. He invited a group of Alaskans from all regions and representing a broad cross section of interests in the state to meet with a faculty from the Brookings Institution. I was privileged to be an editor for the series and helped to record and summarize the final report of what the people wanted.

It was noteworthy that with one exception, everyone who came, no matter how regional his prior feelings, soon put regionalism aside and truly addressed the subject of what was best for Alaska and its people as a whole. The specifics are on record, but the overall finding showed that it did not matter how much money the state had---a lot or a little---the desires would be the same: to maintain that peculiar quality of life and to enhance it.

Brainstorming sessions revealed that defining quality of life was a bit more complicated. Each related to his or her particular experiences, attitudes and life style. Basically however, accomplishing this goal would include these things:

Protection of environmental values.

Conserve non-renewable resources.

Develop renewable resources, particularly fisheries.

Provide educational opportunities which fit the people's needs and desires.

Encourage cultural development.

Support the strong, independent character of Alaskans.

It was suggested in the discussions that Alaska could skip certain historic phases of development---such as industrial---and could find innovative approaches to economic questions, although few specific programs were presented by the faculty.

At the same time the Brookings' findings were making their impact, a new phrase was heard throughout the land: Alaskans have the last chance to do it differently, to profit from mistakes made in the South 48.

The phrase was used most often by those from the lower states as they addressed various publics on such matters as Building the Pipeline. (That's capital letters.)

Soon it will be a decade since those first "riches." How and where that money was spent is not the issue here. But attitudes of people, particularly leaders, and how they've approached the ideals are very much the issue. They, too, can be and often are greedy, shortsighted, impulsive, unwilling to consider all the options. They find it difficult to live up to their own statements of how to achieve a better society.

But perhaps this time the leadership---you, in fact--- can

help guide the people toward fulfilling lives. You will certainly be asked to help make life a little easier for Alaskans, and that, if done with wisdom, is a valid consideration. But I fervently hope that totally cutting out various taxes which support our necessary institutions and government functions will not be the way you ease their lives.

The evidence is everywhere that when people do not pay their own way, when they are unaware of costs for services, when they have no grasp of what it took to make or build something, when they put little value on the "somethings" which come with no effort and that they also lose in strength and character.

On top of that, if costs of living are reduced too greatly in Alaska, it will open the flood gates for all the freeloaders who want only to be in on the "freebies" but not to contribute to the growth and stability of the state.

And finally, I would ask that you look to ways of enhancing what we have rather than getting more or of setting up the machinery which would lead to the "more and more" syndrome.

So, with that for background, here is my specific suggestion:

Establish a percentage of the income from the Permanent

Fund to be available on an annual basis to Alaskan communities for use in connection with cultural facilities.

GRUENING: Would you say that again, please.

WOODMAN: Establish a percentage of the income from the Permanent Fund to be available on an annual basis to Alaskan communities for use in connection with cultural facilities.

A formula would be developed for communities according to population and could be weighted in a manner to be more helpful to those communities with less economic viability.

The funds would be available on application and would not require matching in kind or money. A community would have to demonstrate fiscal responsibility in use of the funds and show that a cultural facility (as defined later here) actually exists or is actively being planned.

There would be no "strings" on how the money was used for the facility. That is, the only "approval" of use would be to show that the money would be used for some aspect such as: design for a new facility or complex; contribution to actual construction of such, maintenance or programming for the facility or addition of a wing, etc.; acquisition of art works or museum material; salary for a curator or a director; assistance in re-

tiring a debt on an existing facility; furnishings for such a facility---new or to upgrade; sponsorship of a program recognized as valid for the type of facility, for example, instructor in management of such an institution, artist in residence, special performance assistance to outside group, etc. These could be specified or it could be shown what would NOT be allowed.

The facility would have to be truly representatiave of public interest.

To define a cultural facility: It is defined as a facility or complex which has its principal function serving the arts activities of the community through theatre, concert hall, museum, and/or gallery; with additional compatible uses such as conventions, community meetings and library services as determined by each community.

The money could be allocated through the offices of, for example, the State Council on the Arts, and its member local arts councils---always keeping in mind that the local interests get true representation. The object would not be to add another layer of government, but to safeguard allocations so that communities would indeed have local authority and the projects be valid.

The percentage of the Permanent Fund thus allocated could be invested in a separate account, thus earning and enlarging while applications were pending.

Penalties could be established for misuse of funds. An annual application date would have to be determined for such applications and grants so that the amount available could be related to requests.

There is extensive justification why this is an important consideration. A 1975 report found that 93 percent of the adult American population felt that cultural activities and facilities were important to their lives, and the growth of the arts has reflected this appreciation.

A professor interested in views on art of the average working person talked with 400 blue collar workers---maids, clerks, mechanics, bus and truck drivers, cab drivers, secretaries, hotel desk clerks, waitresses, carpenters and street laborers as they went about their daily tasks. Their opinions were written up in the study, Opinions of Working People Concerning Art. Some critics hailed it as the first "tell it like it is" audience "pulse feeler" done in a long time.

Generally, the professor said, workers interviewed believed that art is necessary to the enjoyment, fulfillment and pleasure of living. A majority also think that tax money should be used to fund artists and art projects. And this is a quote from the report. "We found that contrary to the general belief, they (man and woman on the streets) like art, enjoy it, feel it worth-

while, know much more than we (the arts world) give them credit for . . . and of course, we discovered what we should have known all along: that most of them dabble in it themselves, as Sunday painters or collectors of everything from antiques to Ming vases, and coins, stamps---that they act in neighborhood groups, sing in choruses and quartets or save their money for tickets for special performances of plays, operas, ballets--which appeals to them."

As a bartender told one interviewer: "Art brings most of us closer to what we really are and what we feel."

A similar survey done in the Anchorage borough three years ago revealed the same points of view and willingness to help support arts projects.

The preamble to the bylaws of an eleven-community Cultural Facilities Development Committee---and I believe you are aware of it through some appropriations to the Southeast Regional Arts Council, or beginnings of it, and I can tell you the names of the communities involved in this at present, are Dillingham, Naknek, Anchorage, Haines, Skagway, Juneau, Sitka, Ketchikan, Wrangell, Hoonah and Petersburg. And I'm on the executive board of that committee.

Now then, where was I? The preamble of that committee reads, "We who are involved in the arts know the importance of cultural facilities to the life of a community. We also

know how stifling the lack of such facilities can be to cultural growth. Our task will be to make the voters of the state aware of what cultural facilities can contribute to our communities. Cultural centers can become the focal point for a variety of community activities, (and can answer the question of young people---what is there to do), providing entertainment, cultural enrichment, recreation, instruction and social opportunity for all the people in the community as well as for those who visit our villages and cities.

"Along with Alaska's rapid economic development, there is a growing awareness of Alaska's renewable human resources. Civilizations are remembered for their lasting contributions to the arts, artists and Alaska's ever-growing arts audience, these centers proposed for Alaska will contribute to such an endowment." That's the end of the preamble.

If ever there were something which would contribute to and enhance the quality of life in Alaska, participation in creative endeavors is it. And having a facility where it can happen, a situation usually beyond the capabilities of any but the wealthiest cities, would be the catalyst.

We can do it differently in Alaska and this is one exciting, beautiful way. And we do care how they do it Outside because that's where we learn, both what to do and what not to do. Thank you.

GRUENING: Thank you very much. I appreciated the philosophical bent of your statement. What we are really asking today, not the technical aspect. Someone said in Fairbanks yesterday, we can hire a mechanic to fix our car, but we don't ask the mechanic where we want to drive it. And I appreciated your point of view. Are there any questions? Bill?

MILES: Thank you, Mr. Chairman. I really appreciate your outstanding presentation. Betzi, while you were putting your presentation together, did you at any time at all wrestle with the problem of the income producing limitations under which we are restrained?

WOODMAN: Say it again, please.

MILES: Insofar as the Permanent Fund, we're somewhat limited to income producing...

GRUENING: She mentioned dedication of the income for this purpose.

WOODMAN: Yes. Not the main fund, but a specific percentage which---and I wouldn't think that it would be our

responsibility to figure out the formula when the management group is there just so it could be done. But it would go on in the community, you know, forever.

MILES: Thank you.

GRUENING: Representative Meekins.

MEEKINS: Mrs. Woodman, one of the questions that keeps coming up, and I think it's a good one, is why would a certain proposal be more appropriate or better accomplished through the use of the Permanent Fund that through the general fund or some of the other funding mechanisms available to the state?

The reason I think that's a good question is because I'm assuming that people voted for the fund in order to circumvent the normal funding mechanism which is through the general fund. And if we were to fund all of the needs that have been demonstrated or even the good ideas that have been demonstrated to us in just a couple of days of hearings, I think we'd end up with something very similar to the general fund, because there are, of course, a great many needs in the state and we try to address them through the normal budget process.

So, it's becomming clear to me that, or at least I'm starting to think that the Permanent Fund being used for activities that

are more appropriate to it than to the general fund and I'm wondering if you had any chance to think in those terms at all.

WOODMAN: I suppose I'd go in terms of what our experience has been in trying to get such things from the general fund. The demand for very basic economic related things has been so intense that it is very difficult to address to this. And it's kind of too bad always to have this one left over thing when I have a feeling that this---I've lived long enough and been experienced enough to realize that this kind of thing is more important than an awful lot of other things.

We use the phrase, as you know, that we don't live by bread alone, and we say it very glibly. But, the great deal of investigation into the internals of how people think and how they live---the young people's protests have been to discover that they really don't answer their needs. They are not the same.

I had the opportunity to gather a great deal of information from people who participated in "Cry of the Wild Ram" over the years at Kodiak. And this was an amazing thing. What it meant to individuals to be part of this. It had nothing to do with who came, who saw, who benefited as an audience. It had to do with the person relating to other

people. A sense of creativity, a sense of belonging, a sense of history of their area which they gained. And they were very emotional about it. They felt it had given a direction to their lives. And, you know, not everyone has ski boots or can afford them and not everybody wants to go down the mountain and not everybody can play in an orchestra. But in a cultural facility, there is a place for anybody who wants to be there. And the responsibility of course is on the community to generate how it's used. And in Naknek, the museum and saving of their artifacts seems to be their major need now. This might change over the years. In some of the larger urban areas, the dramatic presentations and the music presentations become more important.

But, I've taught school over the years. I've taught music and I've worked in theatre and so on. And it's my experience that over and over again it has been the saving thing to many a person because he found a place where he belongs and it's important to him. His community is the life.

MEEKINS: I think you make a very compelling argument for the need for these types of things in our lives. But, I guess, what you are saying because historically, you don't feel that it has been funded enough or quickly enough, or something, through the general fund, and since the Permanent Fund would allow us to, in essence, dedicate a certain percentage year after year and you

wouldn't have to continually make presentations and try to get them from the state since it would be a dedicated fund, that that would be a more secure way of funding it and that's the reason you look to the Permanent Fund, then?

WOODMAN: I think so, yes.

MEEKINS: Thank you.

GRUENING: Any further questions? Thank you very much.

STEEBY: I'd like to comment on the question there.

GRUENING: OK, well normally---we'll go out of order---we don't like to do that---as long as we don't get involved in a debate. Go ahead.

STEEBY: Her ideas are quite a bit like mine on using the income from the Permanent Fund for recreation facilities, campgrounds, art galleries, medical centers and things. I think we're going to have to keep our taxes up to keep all of the freeloaders from coming in and, rather than take income from the Permanent Fund and put it into the general fund to maybe reduce our taxes too low, designate some of

this money for some of the more social aspects of our living. Rather than just having it all go into the general fund.

GRUENING: I guess your only disagreement is on opera, right?

Thank you very much. I think we have time for the last listed witness, Harold Pomeroy, and then at that point I think we'll break for lunch and then it's a free-for-all. The way we did it in Fairbanks is anyone who wanted to testify next just came up and the first one to get here got it. Everyone was very gentlemenly about it.

POMEROY: Mr. Chairman, members of the committee. I was plagued in attempting to prepare testimony because it seemed to me that I didn't have anything to say that you didn't already know and I'm not a specialist or a professional in a particular field of finance. I was uncertain as to how to proceed and be useful. I decided to take a look at your preliminary report by the House Special Committee, that it might aid you a little bit in your further deliberations. I also thought that I could be most useful, if useful at all, by proceeding from my own experiences in the field in Alaska and make reference to them. I have prepared my testimony, you have copies of it. I think it well to read through it so that if there are any questions...

The work of your committee merits high marks. It is clear that you are laying out as many pertinent facts and as much useful information as feasible. The preliminary report by your committee on the Alaska Permanent Fund is evidence of the quality of your efforts.

The report is a good start. The issues and considerations bearing on the Permanent Fund are so complex and extraordinary, however, that enough data from which to draw well-considered conclusions will tend to make any report for general distribution overly long. This is a handicap.

And I interject there that we are possessed of a great many illusions, a great many hopes and aspirations that are just that. For example, recently the urban conservatory conducted an attitudinal study in the lower end of the Kenai Peninsula and contacted more than half the families there. And, in asking about what the people would like to see developed, what they'd like to see evolved, 92% of them said the emphasis should be on agriculture. Well, agriculture started on the Kenai Peninsula in 1949 and it is negligible now. And however a person might feel emotionally about agriculture versus industrialization, for example, there is a large part of illusion there as there is in some of our other hopes and aspirations.

Such qualifications as I may have to appear before you

on the Permanent Fund come mostly from actual experiences.

My first contact with Alaska was in 1948 when I flew here from Vienna, Austria, to take a look. In addition to personal interest, there was also the purpose to do off-the-record reconnaissance for groups representing war weary Europeans looking for a fresh start by resettlement. General Kepner provided me with a C-46 to fly around the Kenai Peninsula, Matanuska Valley and Susitna area for an entire day. When I returned and talked with John Gorsuch, then president of the Chamber of Commerce, and queried others, it seemed to me the potentials for economically sound large scale settlement, and particularly with reference to an agricultural industry, would be too meager to be feasible. It looked as though importing tens of thousands or twenty thousand or thirty thousand people would be an extravagantly expensive and hazardous effort in the absence of conditions more favorable to viability. Perhaps my original interest had been stimulated a little bit by a statement by Interior Secretary Hickey's in the 1930s that Alaska's future would rest on very large scale settlements of people, that is to build up population.

I was raised in alfalfa ranching and dairying in Los Angeles County and after six wearying years in Europe during and after the Second World War, the peace of Alaska as seen in 1948 was so appealing that we homesteaded at Bear Cove on the Kenai Peninsula in 1949. We sawed lumber for fishermen around Kechemak Bay,

operated hothouses and commercial gardens. We would have enjoyed this life a little longer had there been very low interest capital investment money, but this would still not have produced enough efficiency to be commercially competitive. We saw and knew scores of once-hopeful homesteader-farmers on the Kenai Peninsula who are now gone. And I know of one viable farm on the Kenai Peninsula and there maybe a few more, but it is negligible.

In 1965 the executive director of the Tolstoy Foundation, the world-wide White Russian refugee service organization, asked for a conference on behalf of peasant Russian emigrees from Siberia who had arrived in the U.S. via China and Argentina and wanted to establish themselves on the Kenai Peninsula in a village where they could retain a simple lifestyle. We aided them, working with Roscoe Bell of the state division of lands to arrange a sale of land and leases.

The Russians were enthusiastic about agriculture and they were peasants. But we cautioned that they should be ready to do anything as agriculture might be too meager. They are now hardworking, successful fishermen. Initially they were prepared to be hardworking farmers but found the potentials just too limited.

They have been self supporting from the outset and now

have more children in their grade school than there are in the Anchor Point school. If more consumers produce prosperity, I imagine this success story is a good thing.

When the legislature ordered boroughs organized I became the first borough chairman of the Kenai Peninsula Borough. We initiated a tax program, including a tough 3% sales tax that produced as much money as the 5-mil property tax, which has been maintained every year but one since then. The purpose was to encourage industrial development by stability and a property tax about 25% of that paid outside. There was much enthusiastic talk about conditions coming right for diversified industrial development. Considerable effort and money went into economic development plans, but neither the petroleum industry not its support activities produced conditions enhancing the potential for varied industrialization. Nothing happened. This, of course, excludes the plants established by the petroleum industry itself.

There was hopeful talk that the high-value nitrogen fertilizer urea could be a big boost to agriculture. And now, anyone can drive his truck to the plant and have it filled with bulk urea. This has not been enough to improve the agricultural outlook.

In 1972 the legislature passed the "New Cities" bill which was promoted as being a great boon to industrial development in

remote areas. The immediate stimulus was the prospective Lost River fluorite enterprise. The bill had significant subsidy implications. I assisted in drafting modifications and supported the bill before the Senate Natural Resources Committee. George Silides testified there were six more enterprises ready to go ahead on passage of the bill.

The City of Lost River was incorporated. I learned subsequently that the Canadian promoters expected the law would open the way for substantial U. S. Federal Government grants for the infrastructure required. The underlying problem however was economic feasibility---the product simply could not compete in the international market. I have heard no more of the other six just waiting to go.

Experience on the Kenai Peninsula has indicated that in periods of normal levels of activity as well as during boom peaks there is a continuing flow of newcomers who compete successfully for jobs. With negligible exceptions employers hire the persons who seem the best qualified, whether just off the plane or lifelong Alaskans.

In view of much effort to promote local hire the actual situation is of compelling interest. To try to understand better what is involved, I have been interviewing persons at random since the end of the Cook Inlet-Kenai Peninsula oil and gas development boom---hundreds of them. The persons

queried are as varied as: truckdrivers, a new clerk in a pet food store, a new face at Petrolane, men at United Building Supply, restaurant workers, persons waiting for their cars at auto service centers and many, many hitchhikers in Anchorage and on the highway between here and Homer. Core questions are: How long here, why did you come, what do you do, did you have difficulty getting work, are you staying? Not one has told me that he was disillusioned and leaving or couldn't get a job. Of course this is not a professional survey, you understand and there is a great big turnover among people in and out of Alaska, but it does appear that we simply have a constant pressure.

From experiences and observations since the organization of the Kenai Peninsula Borough following the October 1963 election, I can only conclude the proposition that economic expansion will cure unemployment is pure illusion. The pressure of newcomers just never lets up. New enterprises and increased economic activity seem to offer enough attraction to keep the pressure on.

I have puzzled over the problem endlessly. But it seems to me that whatever policy we may pursue that stimulates economic development we should do so without the expectation that it will lead us to a plateau of full employment---or even reduce unemployment to a moderate level.

Recently I had occasion to consider the economics of a mining property in connection with writing about severance tax.

The property is a substantial body of copper ore which is reasonably accessible. Development would employ 600 people, which, with dependents, would total about 1800 residents. This number would probably account for another 1800 people in service activities. On the question of the enterprise paying a property tax, the response was that this would be impossible. Neither would a severance tax be supportable.

A preliminary guess was that copper would have to be $1.20 to $1.25 per pound for the enterprise to break even. Copper on the world market was then between 50¢ and 60¢ per pound. Obviously the property cannot be developed until economic conditions become far more favorable. Waiving all state and local taxes couldn't buy economic feasibility, but the state would be incurring a cost of several million dollars for public services for the persons involved.

In the report you have said that "our task is to find out what Alaskans want the Fund to achieve and to recommend legislation..." This is a difficult task as it is next to impossible to comprehend all the implications of the huge oil and gas revenues. Yet this is a central reality to which we must relate our thinking about the Permanent Fund and everything else concerning the future.

If anyone believes, however, that we should spend as convenient as we go along and accumulate in the Permanent Fund

only what is left over (with the minimum of 25%) he should stop listening now. If anyone is convinced it is safe to rely on future Prudhoe Bay-size discoveries he should stop listening.

Since we began to have petroleum revenues in large quantities the people have aspired towards a variety of level of public services common in most other states. This is far costlier than personal taxes and the productivity of the economy had previously been able to support. Costs in Alaska are higher than elsewhere---for public activities as well as for doing business and living and thus this has aggravated public expenditures. It may be some comfort to rail at the legislature and a "bureaucracy gone wild." There are of course always some inefficiencies, extravagances and poor judgements. The effect of these is insignificant in relation to the total budget. Anyone who thinks some big reform or return to "grass roots" will bring expenditures way down is deluding himself.

The upshot of the situation is that the state is disbursing close to $1000 per person per year more than it takes in, exclusive of petroleum revenues. This is a central reality with implications hard to perceive or to accept. It makes the proposition to diversify the economy in order to broaden the tax base for the time petroleum revenues diminish an almost total delusion. There is absolutely nothing on the horizon to indicate that any prospective "diversified" enterprises will be able to do much more than

pay our currently relatively moderate taxes. In fact, the report implies the probability that use of Permanent Fund money to diversify will require benefits such as low interest rates---meaning some measure of subsidy.

Taking account of the central reality of our situation one can only conclude that effective promotion of diversification will result in an unfavorable balance sheet of costs and benefits, thus eating into resources we are committed to preserve.

The second paragraph on Page 9 of the report is an excellent statement. I would change only the second word from "may" to "will" so that it reads, "subsidies will only make sense if the loan will be supportable and the enterprise will pay for its cost." This paragraph is generally consistent with the testimony of Drs. Tussing and Daniels touched on in the first and second paragraph on Page 4.

What I have said about diversification applies equally to renewable and non-renewable resources. With respect to agriculture I suggest that the report on Matanuska Valley farming in Section B, Anchorage Times, September 4, 1977, be given close attention. It states inescapable facts, but also quotes what seems to be pure wish-thinking. Jalmar Kerttula is the source of statements about massive capital investment aid. He is quoted as saying, "In fifty years

farming and prices might no longer be marginal. It's something to plan and work for." And, "it would take five years to get a grain project really going here and overall we're talking about fifty years from now before agriculture could become an established state industry."

And I interject here, I am not against agriculture. I simply am hopeful that we will not go overboard and will not pursue a course that may be illusionary as far as its ultimate effects. And I refer to your quote in the preliminary report to agriculture as a special fund so that we can rapidly develop agriculture throughout the state. It will be a long, slow, limited process.

I had occassion to make a study on the Kenai Peninsula with respect to a proposed forage project on which the Bureau of Reclamation had spent some $300,000 and the gas line was going to provide the heat for pelletizing the forage for the many thousands of horses and other livestock we have around here. And it was easy to find very quickly the fatal defect. It was simply that in order to be feasible from the standpoint of justifying the capital expenditure, capital investment necessary for that project, it would have had to operate 24 hours a day for something like 95 days. Well, the optimum for the production of forage, because of our adverse climate, may be only about three weeks. And that project, even if it had gone ahead and been realized with individual operators having 500 to 1500 acres of land, it would have taken

care of maybe 25 or 30 pounds, that was all.

In general, "diversification" and "renewable resources" seem to be similarly deceptive as to broadening the tax base and stabilizing the economy when oil revenues decline.

The third paragraph on Page 5 of the report states, "As oil wealth declines, the Permanent Fund may bear the responsibility of supplementing the general fund through income from fund investment, ..." I would change "may" to "will". A qualification might include words such as, "...barring some unpredictable windfall."

The first paragraph on Page 5 touches on the underlying concept of the Permanent Fund by referring to preserving the dollars into which the oil and gas wealth is being transformed. And that's one of the most sophisticated statements you have in your report. Dr. Barbara Bergman of the University of Maryland speaking on a panel on September 10th said, "The idea of the Permanent Fund is to preserve resources for future generations." Unfortunately the fast transformation of oil into dollars means a considerable wasting away of the dollars from inflation; increased price of the oil in the ground would probably offset inflation, but this is not possible. Managing the fund for high return can help preserve the value of the dollar resources.

And I note here a little bit from some of the discussion so far that I think it appropriate to say that the whole concept of the Permanent Fund is rooted in economics. And there must be a purpose of a hard-headed approach from the standpoint of economics because the idea is to take this resource that has to be gotten out fast rather than spaced over 50 or 60 years because of the economics of transporting it, is to take it and put it into a form that will save it. And it will keep it up so that it can make a permanent contribution.

There is probably no more important statement in the report than the sentence on Page 9, "If no in-state opportunities exist, the Permanent Fund cannot create them." In other words, if the requisite conditions for economic viability are not present the state can't buy them. Further, as a general proposition, if requisite conditions are present, money is available and the state need not go into the financing business separately. This of course excludes some social purpose which might be deemed worthy.

And I interject here something concerning electric power because of what has been said here. I concur in the testimony presented. I concur in what Representative Haugen has said because the development of electric power, if done of course on the basis of good sound evaluation of a project and the longevity of it, can make just very good economic sense. When we started producing

oil in Alaska, oil was about $3 a barrel. No one thought then it would be priced at $14.60 and no one may think that it will be priced at $30 in twenty years. I do. I think that it won't be long before it will be $16, $18, $20 and more, simply because of the pressure on world wide resources. And so, if an investment is made in a hydroelectric project as in Ernie's area, for example, and it is sound, even with a moderate rate of interest, the feature that Ernie referred to of an accelerating interest rate as time goes on would still make it very, very good sense from the standpoint of the users and from the standpoint of the investment of the fund as to overall return in the long run. You heard testimony here that per kilowatt diesel fuel new represents 4¢ per kilowatt. Well, as it goes on up it may represent 13¢ or 14¢ or 15¢ per kilowatt. And by that time electric power---those projects which are thoroughly sound---can make very, very good sense.

So that's the only point at which I make observations specifically as an object of expenditure and in that connection I would say, Russ, I'm not worried about money, that is, if I had the say of what we did with respect to the Permanent Fund, because I would save a helluva lot more than $2 billion and hope that we do arrive at that point.

This of course, referring again, coming back to the text, referring to your statement about if no in-state opportunity exists. This, of course, excludes some social purpose which might be deemed worthy enough to have attention from the Permanent Fund. Any action in this direction should be based on a clear-cut identification of the results to be produced and the costs involved.

I have said that the petroleum revenues are a central reality to which we must relate our thinking and projections for the future. The significance is in the sheer magnitude of money, what we have done so far, and where it is taking us.

Some comparisons may help in relating, and therefore in evaluating. You know this of course, but maybe there is somebody who don't. If the state's budget is increased an average of 10% per year, the budget in less than 20 years will be $6 billion; the 10% annual increase might be made up of 5%-6% inflation, 2.5% plus or minus population increase, the rest in services expansion. Now as to comparisons, gold production in 1976 showed a big increase over '75. If the state revenues totalled $20 per troy ounce for gold for '76 (a ridiculously high figure, I think), this revenue would be equal to about four hours of the revenue produced by oil and gas when Prudhoe Bay production is at 1.6 million barrels per day.

Recently an exuberant state official said the 200 mile limit

provides us with such a potential bonanza in bottom fish as to overshadow gold and oil combined. A very rough estimate, based on the official's enthusiastic figures, indicates that the revenues to the state by 1990 for a year might equal about seven and one-half days of the oil revenue at peak. At the present rate of oil production from the "giant" (by outside standards) Cook Inlet-Kenai Peninsula fields, it would take 150 years to produce as much as will flow from Prudhoe Bay in about 20 years. And I note that just simply to indicate the pure magnitude of what we are dealing with.

It seems to me that the central reality is in the question: what do we really want the fund to do for us in the future and that this takes precedence over how we invest whatever money there is in the fund. I construe the size of the fund to be basic to "what do we want the fund to do for us." The people have already expressed themselves in principal. But it seems to be that we haven't made clear enough the picture as to the possible total of the abnormal oil and gas revenues---not just the revenues of which 25% must go into the Permanent Fund. Figure 1 on Page 6 of the report is a good start, but it isn't enough. I suggest there should be an expenditure chart starting in '74 or '75 and projecting on to about 1997. Of course it would have to be on an "assuming that" basis.

This should be accompanied by a similarly based chart of revenue with all the oil and gas revenues (including the pipeline tax), and the "normal" revenues, shown separately. Now this may seem like an impossibility, but I think almost anything is better than nothing so that the people can get a better picture of the whole dimension of everything with which we are dealing. It seems to me the people need to be more fully informed, if possible, in order to make value judgements on any aspect of the oil and gas revenue. More information might lead to better perception as to a basic goal for the long time future and perhaps influence a person's judgement as to "diversification" and "renewable resources" versus "investment in high yield, low risk securities", for example.

It seems to me that presently there is danger of people becoming excessively attracted by sacred cow catch phrases which are deceptive because they sound so nice. They are also deceptive because the rate of state expenditures we have reached plus exceedingly high costs, brought on by our own inflation from the sheer velocity of money, is further depressing the potential viability of many ordinary economic activities. Consider: our agricultural wages are the highest in the U.S.; the average of seven construction industry classifications, including laborer, had risen to $15.43 an hour, excluding fringe benefits, by last January.

If people should believe it desirable to feed and nurture the Permanent Fund to maximum feasible size and producitivity, the

result might be the greatest assistance that could be extended to future prospective enterprise through the simple effect of helping to hold future taxes down. Obviously, every citizen would benefit, too. In this connection the obligation to preserve the wealth, converted into dollars, necessitates enhancing it with earnings to offset its wasting away from inflation to maybe half its face value in 20 years.

GRUENING: Thank you, Harold. You have obviously devoted a great deal of time and thought to this. Are there any questions from the committee?

POMEROY: Well, I just hope that it may give you some few thoughts that will help you in your consideration. You know that I'm a member of the Growth Policy Council and we are taking some of these questions to the people in a series of Public Forum meetings. I expect to spend almost my entire time in November and the first part of December in that. I don't know how good a job we'll do. It's so difficult to get enough information into the hands of the people so that they can form good judgements without the person leading the group, actually leading them and suggesting what he thinks they ought to think. We try to avoid that. We try to do what you're trying to do---

is to gear what we have to say. And thank you for listening to me.

GRUENING: Thank you, Harold. We'll return at 1:15 and try to start at 1:15 sharp. If there is anybody here that hasn't testified, I mentioned that we did do it on a kind of free-for-all basis. But if there is somebody that couldn't testify other than right after lunch, just see me.

LUNCH BREAK

GRUENING: I want to welcome everyone back to the continuation of the hearing by the House Special Committee on the Permanent Fund.

This morning we heard from several people who have various ideas and philosophies on the Permanent Fund. We just returned from Fairbanks, a one-day hearing in Fairbanks and there was a series of suggestions by the Fairbanks people. Some of it ranged from very conservative philosophies to investment in everything from artifacts to whales.

And today, this afternoon, I am as much interested from the witnesses as to what they don't want the Permanent Fund to do as what they want it to do. As people will recall, we do have a general fund in which the greater portion of our oil wealth will be going unless we change the law as it now stands. Twenty-five

percent of that oil money of course goes in the Permanent Fund. The other 75% together with all tax revenues goes into the general fund and from that the legislature decides among all competing priorities, everything from artifacts to whales, again, as to how much of that money will be spent for what.

We have a Permanent Fund which separates that amount of money---25% of that oil revenue---from the general fund and from the legislature to appropriate. Today we'd like to hear about your philosophy, how that should be treated differently, how that should be invested and how the income should be used. And I think our first witness this afternoon is Paul Brown.

Incidentally, I'd like to introduce the rest of the committee. I'm Clark Gruening, the chairman. And sitting to the left of me is Representative Russ Meekins, to the right of me, Ernie Haugen from Petersburg, and Representative Bill Miles of Anchorage and our A.A., Mike Doogan. Did any of you gentlemen have a statement or anything you'd like to say? OK. Paul.

BROWN: Thank you, Mr. Chairman. I would like to address the issue also of the quality of life in Alaska and some of the observations that I have having lived in the state now for nine years and some of the changes I've seen that I think

are both positive and very negative in this state. And I believe that that ties into both the Permanent Fund and the larger general fund that you spoke of. Whether or not money should be used in the general fund for particular needs within the state or the Permanent Fund, I think it's probably better decided with a great deal more planning and by people far more knowledgeable with the finances of our state government than myself.

Dealing in a particular area, and mine is the---professionally ---is the producing director of the Alaska Repertory Theatre, I am aware of the continuing and changing needs within, not only the theatre segment of the arts in our state, but in a larger sense the statewide arts needs and getting even more general than that, what I come down to call my version of the quality of life.

First of all, I think that what Mrs. Woodman testified to earlier this morning relative to the vital role that the arts are playing in the development of our state is, if anything, understated. For one reason or another, and there are many theories on the idea, the arts in Alaska are more important in this state than they seem to be almost anywhere. The study that was referred to this morning on the number of Americans who appreciate, who seem to want the arts in their lives is one conducted by the National Research Center for the Arts which is an affiliate of Lewis Harris and Associates.

It was that same firm three years ago that got this what is

called an attitudinal study under sponsorship then, partly from the National Endowment to the Arts, the Greater Anchorage Borough and the Alaska State Council on the Arts. That study, which is available, and I recommend that you take a look at it, didn't ask people how many plays and concerts they wanted. They asked the people's attitudes towards the arts. What they wanted and where they felt funding should come and if in fact those so called amenities could be available or should be available only by private contributions. In general the study found out that people in Anchorage, Alaska, at least---and unfortunately there wasn't enough money at that time to do a statewide study---seemed far more sophisticated in their understanding of what the cost of the arts were, where the arts had to be funded from and even more basic, that is the needs of the arts here in our lives. I'd like to say that maybe one of the reasons it is important in Alaska is that we don't go to the beach a great deal. I think it's partly due to our climate.

There is a program, to get specific, there is a program that has been operating now for quite some time in Canada which has dedicated funds to an arts endowment. At the time the Canadian Council on the Arts was formed, millions of dollars at that time were---created a fund which then dedicated the money to the continued growth of the arts. Essentially that

money is administered by a special committee of the National Council for the Arts in Canada and in addition to the appropriations---and this is the key to it, there was some misunderstanding at the time that the endowment created---that this should replace the annual appropriations from the states and from the provinces in Canada. But that this fund which helped to develop and to continue to fund the arts does come from the earnings from the money that has been appropriated by Canada. The income is averaging something like 7¼% annually, the fund managers, because of some investments that were not as wise as they hoped they would be, are making changes and hope now that they will be able to bring that up to at least 8 1/5%. The administration costs from the Canadian Council are kept low, they are 12% of the earnings annually. It allows the arts in Canada, the various institutions, to undertake multi-year projects that are not tied to appropriated annual dollars. All grants are then made from the special committee of the Canada council.

Now, that system works in Canada and I would suspect that it might work here because it takes the administration of arts dollars away from, or at least partially away from, the year to year political fluctuations that occur in their government as of course they do in our government. The arts are not, should not be political. Apparently, too often they get political and when we have our legislature determine what is good art or what play should be

supported, then we're really attacking the very root of art, which is self-expression. And I think that every member of this committee would agree that the legislature need not determine self-expression from the people of this state.

There is a problem that exists now within the arts in this state, that is oddly enough related to at least the conventional wisdom and the rest of the country about our new found wealth. I can remember a time only three years ago when I was going in search of funding at the national level and at the national foundation level when to merely be involved in what seemed like a sound arts project way up in the frozen north would create a great deal of excitement. And there seemed to be almost a special treatment in Washington and elsewhere in private foundations in New York and Los Angeles, merely because a state that was perceived to be so backwards was interested in the development of its---of other size programs.

Just about the time that I was in Los Angeles and the day before I approached the Schubert Foundation this spring, there was a banner headline in the Los Angeles Times. That banner headline read, "Oil Companies Lose, Alaska Wins." Now the story that followed beneath that banner headline wouldn't have been a surprise to anyone. We were all following the great debate in the state as to what the new tax

revenues might be on the oil companies. But the impact that that press had---and certainly the Los Angeles Times is not the only one to blame---the national impact, rightly or wrongly, is that we have new-found wealth and that we needed to begin to look internally as to how we were going to support some of the programs that had been funded for many, many years at a federal level. What I'd like to point out to you here is that the arts are by no means an exception to the national perception that we have the wealth and we need to do more of the job ourselves. I suppose that is true and it weakens our arguments.

We have an added problem that is an old problem but it continues to be a problem. Traditionally, as many of you know, the arts in America have been funded by the wealthy, they have been funded by private foundations and corporations in a more recent time, but by people in the private sector who had the money to make up the difference between what the arts could earn and their actual cost. Alaska is a late entry into private wealth. There is, as you probably know, only one private foundation in this state that is active. It is a small foundation and has disbursements of roughly $65 million a year for all programs. It does support the arts. It cannot do the job alone.

What I'm suggesting here is an idea for an endowment to the arts is certainly not for the state to take over the role of the small amount of private money that is available or the corporate

contribution which has been rather generous, particularly since at least the advent of the oil companies, but rather to increase or hold out the carrot for further private contributions to the arts. If an endowment were created by the state, it certainly could be created in a way that would encourage further private corporate donations to that endowment. I certainly don't think state money should ever replace what is available to be raised from the private sector, nor should it decrease the interest on the parts of those of us who manage the arts in the state in the potential for earning. I think it is first and primary that the arts try to earn every bit of the income that they possibly can, but that we cannot hamstring them with impossible tasks that we are now beginning to do.

There is no question that the audience exists. And to use the statistics that are quite familiar to me because I use them all the time the first session of the Alaska Repertory Theatre, the state's first professional company, drew in an audience in Anchorage alone of over 20,000 people in its very first short season. In one week's time in Fairbanks, we drew in an audience of nearly 6,000 people. Because of limited funding, as a matter of fact because of state funding, not so much by the legislature but by the administration, the statewide programs that have been envisioned in the inception

of this organization have yet to be realized.

I'm going to get away from the arts in particular and make one other suggestion that this group might look at. We have seen, and particularly in Anchorage and Fairbanks, the loss of the character of both of those towns due, at least partly, to development. I hate to admit it, and I say it sort of embarrassed when I'm outside---my friends, because my love of Alaska exists or I wouldn't be here---but Anchorage distinguishes itself as certainly one of the ugliest cities that I know of. The reasons for that are numerous. But what there was in terms of a character in this city, and I think that this is probably true certainly in Fairbanks and maybe elsewhere in our state, has been lost. We have scattered development, we've had to build quickly in order to handle this tremendous oil boom that you are now trying to decide some of how it's benefits should be spent. There is no program that I know of that it's going to encourage the small businessman. It's going to encourage the commercial side of this city to invest in what the asthetics might be of their businesses. And I'm talking about the improvement of the exterior of buildings. Spending the extra dollar with construction costs as high as they are to take into what is not considered important because of the economics. The architectural considerations. We are probably sitting in the building in Anchorage now that distinguishes itself above all others architecturally and it certainly isn't going to win any awards

anywhere. And of course it was built by state money. Maybe the Permanent Fund needs to address itself to the changing character of Alaska cities and maybe there has to be some incentive from, again from earnings from the Permanent Fund, to encourage business and local government for that matter, to turn the urban areas of both, particularly Anchorage and Fairbanks---and I single them out because they are the only communities in this state that qualify as cities, at least by outside standards, and have more of the problems of cities---into making this a better place to live.

We no longer have the tiny little pioneer towns that they once were. We're going to build urban areas. We read reports that Fairbanks will be 70 and 80,000 people before too many years and that Anchorage will go up over a quarter of a million people pretty soon and 300,000 by 1985 or 1990. I'm interested, and many other people are interested, in what those cities are going to feel like. What are they going to look like. What are they going to be like to live in as they are in real cities. Is there some way, is my question, to turn some of the state's resources, through the Permanent Fund, into the encouragement of---so long as we're going to have cities---building cities that are far more pleasing for every Alaskan who lives in those cities or everyone who visits those cities to be in. Thank you.

GRUENING: Thank you, Paul. Any questions from the committee? I take it, Paul, that you have at this time no comment on the actual investment of the fund. Your comments relate to possible dedication of the interest or earnings in the fund.

BROWN: That's correct. I think a great deal more study would have to go on to determine specifics.

GRUENING: Thank you very much. I appreciated that. Is there anyone at this time who would like to testify?

WILSON: I wasn't really prepared to make a statement today. My name is Richard Wilson and I'm working with a citizen's group in Anchorage which is called Breakthrough and I'm one of the volunteer participants. My job happens to be the local financial resources to pay for various improvements, some of which the previous speaker referred to. I'd like to broaden my concepts into a much more Alaska-wide framework.

The first thing that strikes me when I look at Alaska is that we have a state that is going through tremendous change, rising aspirations in terms of the services the government provides, in terms of the amenities of life. Everything from electric, dependable electric, service on through to cigars. We have so many wants and the presence of a Permanent Fund is so all pervasive that the

two have got to clash or be reconciled in some way. And I think the thing that I would---my suggestion to the special committee would be on behalf of Breakthrough---and really on a statewide basis is to---not to preclude the possibility for utilizing these funds for purposes of community improvements.

I noticed in the publication that the committee put together, the green-colored publication, one of the possible strategies for use of the funds mentioned was the assistance for local capital improvements or municipal projects. One of the things that struck me is that under the possible implications column on Page 9 you find that almost all four of them, three out of four, are more or less of a downplay implication. In other words they do not really say positive things about the idea. And I think that may well be true. One of the comments was that it was not a good rate of return to the Permanent Fund to subsidize a municipal electric system, for example. Where they had no electricity previously. Other investments would bring more money back to the Permanent Fund. But in terms of the broader social purposes to which I think this fund has to address itself, this committee has to address itself. The net return to the fund can be maintained and yet you can apply some of the fund to worthy community improvements, that not be a high rate of return, but are, you know, of long run appeal kind of investment.

I would like to give an example, just along the these that was employed this morning by several speakers, the energy theme. Energy conservation wasn't mentioned. I think perhaps this is one of the fields that should be explored. For example, every community, every city borough in the state has municipal facilities. How many are begun in such a way as to conserve energy---get the maximum energy efficiency possible. Well, maybe one of the best investments that could be made is, and on which a return is possible, is to fund a refurbishing of the municipal facilities around the state. You can naturally cost out and project out the savings in energy costs over the future as fuel costs rise and you can do this in conjunction with the various demonstrations and pilot projects that are proposed by one of the earlier speakers this morning. Mr. Rutherford. such as your wind power and hydroelectric.

But, here's an example of a community improvement that may produce a long-term benefit to the citizens of this state. Economic as well as social. And I think it should be considered and not precluded by the committee. And the list of examples is endless and I won't go any further.

I think the point is that we have an existing and growing demand around the state, as Mr. Pomeroy mentioned to me over lunch. The Alaska Public Forum, various hearings around the state, produces an almost unanimous feeling that what the fund really could be useful for is funding community improvements.

Whether they be a hydroelectric facility or a library. And given this really felt need around the state, I think the legislation should be written in such a way as to be broad enough to authorize the use of a certain proportion for these purposes and I think this is a statewide need and that's about all I have.

GRUENING: Thank you, Rich. We appreciate your comments. Are there any questions from the committee? I only have one. I believe your profession is investment counselling, is it not? Or what is...

WILSON: Well, it's municipal finance and community planning and development. I'm consulting with municipalities and boroughs and hopefully with the state in certain circumstances to basically achieve a more efficient use of public funds.

GRUENING: Now, we heard from consultants who recommended against the Permanent Fund getting into bonding, purchasing bonds because the income is generally lower. Although it's tax-free, the Permanent Fund being a government institution, a public institution, will have tax free earnings anyway. It was suggested we get into some of the other areas that are higher and I'm interested in your thoughts on that and the

thought that once you start devising various ways to invest the fund that involves social implications, you, what you are doing in effect is allowing certain subsidies for certain classes of people. Then we have an accountability and an equity problem. To what extent do you feel we could solve that problem so that the most benefits get derived? Is that the thrust of your testimony? That through city or municipal improvements you reach, let's say, the division of the assets of the funds in a more equitable manner if you distribute it that way?

WILSON: I think that is one of the points I would make, yes. And I didn't make it specifically, but that is one of the major points, I feel, to consider by the committee. If you ask me what I thought the purpose of the fund were, I would answer it is to maintain a nest egg for the future. In case, for that rainy day in the future. It's constitutionally required. But the constitution does not preclude a net return to be maintained. And what I mean is every investment that is made doesn't have to be the highest rate of return. It is only the net return on all of the investments, whether they are high, medium or low, or even lost subsidies in effect. Just so that the net return is positive and you make money. That's what I think is the constitutional requirement. Given that, I think, it's only a question---and

given the fact that you have demand for services that is existing, and you as elected officials must feel it every election. We need to do this. We need to do that. We're talking about facilities, we're talking about municipal improvements. And this pressure will maintain itself and it will grow. The question is, in what form can that assistance to help those community improvements be funded take without producing a net loss.

Basically, a small proportion should be the limit. And I think that one of the things that I would propose is that the committee consider utilizing a decentralized system of decision making for those investments that aren't intended a net high return. Decentralize that part of the process and centralize the profit making part.

GRUENING: OK. Mike, do you have a question?

DOOGAN: I just want to make sure that I'm clear here. You are saying that your interpretation of the constitutional amendment will allow a certain proportion of these investments to be made regardless of whether or not they were income producing. That is, that you could make investments even though you were going to lose some money?

WILSON: No, I didn't say that. I don't think that we should go into it with the idea of losing money. That concept is---it's not the right way to say it. The word subsidy was used in place of that. And I think there is room for certain subsidies to be made within the confines of that constitutional requirement, but a very small proportion of the total investment. Out of---2% even, just to take a figure out of the air. I haven't studied that part of it. Don't hold me to a figure. But it's possible that the net return could be made even though you do subsidize certain investments. And it is---the question is which do you subsidize? And in analyzing the relative net benefits and costs of each form of subsidy is a tremendous task we have before us.

GRUENING: Thank you. Are there any other questions from the committee? Thank you very much. If there is anyone, because of time that wants to testify right now, we'll take another witness. Otherwise, we'll take a short break. If there are no further witnesses, we'll get home and get some rest before we go to Kotzebue tomorrow. We'll take a five minute break.

BREAK

GRUENING: Call the meeting of the House special committee back to order. We have a witness, Mr. Bob Posey, who would like

to give us some of his thoughts.

POSEY: Thank you, Mr. Chairman. As a long-time Alaskan, I also am quite concerned about quality of life in Alaska and this afternoon we have heard some comments about the importance of quality of life here in Alaska. One of the things that all long time Alaskan's remember, though, is that for many, many years, the only employment within the state was by the government. Everybody was either on the government payroll or worked in a service industry that provided services to those who were. I believe that any investments of this fund should take into account that we should keep Alaskan residents employed.

I notice here in your report, preliminary report here, that you published, that we talk about risk. Well, I have an answer, I think, to that question which you raised. There has always been risk in Alaska. The people who came up here in the gold rush were taking risks, there was no guarantee. The farmers who came to the Matanuska Valley were taking a risk. There was no guarantee. There are many people here in Alaska today who took a risk to come here. There were no guarantees. We have a wonderful state, we have a dynamic state and dynamic people here.

But, unless we look to the future, it's entirely possible

that our children and our grandchildren will not have jobs because it's entirely possible, in fact it is even probable, that when the oil resources are depleted, the oil companies are going to pack up and leave. They are under no obligation to stay here. And I should hope that we would have built Alaska into some type of business or industrial base to where we will have jobs for Alaskans in the future. That's all I have, thank you.

GRUENING: Thank you, Mr. Posey. Questions from the committee? Representative Meekins.

MEEKINS: Mr. Posey, I agree with your statement quite strongly. I've been concerned about exactly how is the best manner of going about that. One of the problems that we've been confronted with on this committee is that our consultants tell us that if we go on a program to increase jobs directly that, because of legal problems with limiting those jobs to Alaskans, and because the labor supply that Alaska utilizes is basically all the rest of the United States because they can move up here and they have. If you're a long-time resident, you certainly know that. Then, how it is we can give this benefit to the people that need it the most? We want to give it to the current residents of Alaska. What they're saying is that we won't have any effect on unemployment, we might increase it because of the number of people that

come up. And they may be in fact, compete successfully against residents for jobs that are in existence currently.

POSEY: There certainly is that possibility and we have a recent trans-Alaska pipeline project to look back upon. I think probably one of the answers to this is that, if we encourage Alaskan industry that, rather than use the fund to develop jobs directly or to do training directly, that there are monies available from the federal government which we receive in this state at this time for training programs. The native corporation certainly has a certain amount of money. I would hope that some of their funds would be used in developing training programs within their various regional areas.

MEEKINS: One of the suggestions we've had to get around the constitutional problem of Alaska hire provisions is that the state participate in large scale development similar to the pipeline---maybe not quite that large, but whatever large scale developments might be going on in the state. That the state participate in those at least enough to get a contractual agreement by the owners of the company that the development hire Alaskans first. And that would be in fact legal and get around the constitutional problems that we have. Would

you favor such a use of the Permanent Fund?

POSEY: Well, that's certainly a possibility. The only problem with it is that it's only a short-term solution. We are interested here in the long-term possibilities, the long-term effects of what we do today. I think one particular pet project of mine would be the state participating in hydroelectric projects because this will not only create certainly a large number of jobs during the construction phase, but having relatively available and hopefully inexpensive electric power within the state is going to encourage development of industries throughout the state, or at least throughout those areas where electric power is available. And the state is certainly going to benefit no matter who is employed ---we hope that it's going to be all Alaskans. I think certainly, probably a major percentage would be. But the state is going to benefit from the increased revenues that we have, not only in individual income tax, but the business taxes.

GRUENING: Any further questions? Mike?

DOOGAN: You sort of addressed my question in that last statement, but, if the Permanent Fund is to sponsor development which in turn can be supposed to bring up at least some additional people from outside to live in Alaska, that it in itself would create a

demand on government services that would not otherwise exist and particularly at a time when the residents of the state seem to be against spending in the public sector. Have you given this any thought? Do you think that the revenues generated through personal income tax, which for instance is relatively low and stable at this time, would pay for the services demanded by the people who came up? Or would we need to increase the level of government spending from oil resources?

POSEY: That's a good question. There's an old saying, in effect, that there is no such thing as a free lunch. I think part of our problem is that we are deluding ourselves to a certain extent in that government services cost regardless. We're going to have to pay for them. There are many places, one example is Delaware. Throughout the state, other than in their major cities, they have volunteer fire departments which bill the people on an annual basis. So, no matter what services you get, you have to pay for them. If people within the state of Alaska want the services, they're going to have to be paid for. How it's paid for is going to be up to the voters.

GRUENING: Thank you. I'd like to ask a question I think every witness may want to examine. What do you think

is the primary purpose of the Permanent Fund. Why do you think we should have one?

POSEY: Well, quite honestly, I voted against the Permanent Fund.

GRUENING: Then tell us why you think we shouldn't have had one. That might be instructive.

POSEY: I can understand, I think, the reasoning behind it and it's to help keep the money in Alaska and make some long-range benefit to Alaskans from the oil revenues so it won't just slip through our fingers as monies have done in the past. My primary concern about the program is the possibility of mismanagement. It scares me to death to think that this money can be mismanaged. I think that as long as we have the proper safeguards within this that that possibility diminishes. But this is always going to be there. When you have large amounts of money to be managed by a group of people, there is the possibility of intentional mismanagement and deliberate mismanagement, but then there is always the possibility of human error. It is going to exist.

GRUENING: As you are probably aware, the general fund now is managed by the legislature and the executive to the extent that

we make an expenditure, the legislature decides who gets it and how much and generally the governor through his staff and departments administers that money. Do you think that there is a greater potential for mismanagement there or one for the fund?

POSEY: That's a very hard question to answer. I think it's probably a toss-up at this point in time. As I said before, there are no guarantees. I think we have to, now that the decision has been made to establish the Permanent Fund, pick up the ball, as you gentlemen are doing, and run with it and do the best we can.

GRUENING: Thank you. Are there any further questions? Thank you very much Mr. Posey. I notice a few people came in the room. Ma'am, did you want to testify? Representative Osterback is here, would you like to join us? We'll be a little while longer, I think. Do you want to be in the audience? We've got fewer of those than committee members.

OSTERBACK: Do you want me to join you?

GRUENING: It's up to you. Great, we'd love to have you. Would you state your name.

WOOSTER: I'm Marjorie Wooster. I live in Anchorage. I represent a group of people who are interested in developing agriculture in Alaska.

GRUENING: I think I received a letter on wheat from you. I hope you received our reply.

WOOSTER: Yes. I received your reply. Thank you. However, it's always good to reinforce a letter. What the gentlemen was saying about looking ahead to the future we are very much in favor of. Money is money. We just can't eat it. What we hope will happen over the next 10 to 15 years is that agriculture will really be stressed.

There has been many views on how the world should feed itself and Schumaker, one of the economists, recently passed away, said that each large metropolis should have surrounding it a number of farms to feed it which would cut down on transportation and so on.

Well, Alaska is in a delicate position as far as food is concerned in the world in that we ship in most of our foodstuffs. And we would certainly like to see a change in this status in the next years. The Permanent Fund money is helping to establish and---farmers can farm, but a lot of processing marketing that gets in an area where there is a big lapse, and Permanent Fund

money can help there in just establishing those areas of processing and marketing. We feel that way. And that's part of, that's what I wanted to say.

GRUENING: Well, thank you. We had an interesting observation in Fairbanks. They were quite interested in agricultural as well and I asked one witness why she felt that present agricultural loan fund was failing, at least it appeared to be not accomplishing its objectives in terms of where agriculture is and the loans were in default. She felt that the loan program was mismanaged, that the loans were given out on a favoritism basis. And, of course, she felt that the interior wasn't getting it's share. Do you have any reflection on what we are not doing and what we are doing that seems to keep agriculture in its kind of poor stepchild kind of industry?

WOOSTER: When I grew up in the valley, there was a lot of farming going on. And last year, I talked to an Iowa farmer who was taking a trip around the valley and said there was many fields laying without being turned over. And I think the farmers are being outpriced, you know, by developers. And another thing, in my opinion, there is no cooperative area where they can---some of the potato farmers have gotten

together and made a market for potatoes, but a pea processing plant came up a few years back, folded. I have a friend who started a freezing plant up there and just ran out of funds, and I believe it has almost bankrupted him. And some of these ---a lot of it is just getting started. Once a process gets rolling and this is where the Permanent Fund could help to get the system started, then they can use the fund to put the produce into the economy.

MEEKINS: I think that is the important part you just touched on, is that---I certainly would like to encourage agriculture and we may end up doing that---but the question is, of course, if it's just, it needs a little push to get going, that the Permanent Fund could help it and then it could eventually sustain itself. Then I think it is an appropriate consideration. But, I'm wondering, as you said, so many of these things folded. Is the reason is that it is just not economic or because they just needed a little more investment money and couldn't obtain it or something?

WOOSTER: This was the case in that freezing plant, I know that. That he ran out of his own money, couldn't find financing and those freezers sat there for a long time.

MEEKINS: But you feel it could have made it if it had some sufficient backing and then sustained itself?

WOOSTER: Yes. Yes. Surely, a large freezer plant for all the vegetables in the valley and then it could be put on the market if it was time for them and so on. Holding is very necessary.

GRUENING: With, say, adequate capitalization, do you think the products of the valley would compete, let's say the massive agri-business or farms of the lower 48?

WOOSTER: I think we'd have to stimulate "Buy Alaska First". Instead of looking for---I know Totem eggs are a lot different than the eggs sent up from the states, I mean you can't compete---$1.25 for Totem eggs and they are what, 80¢, 90¢ for the others. So naturally people buy the other ones.

GRUENING: Aren't they forced to do so, I mean the prudent homeowner or householder is going to stretch the budget as far as it'll go. I mean, "Buy Alaska" may be a couple of cents difference, but isn't there a point at which patriotism will not go?

WOOSTER: We may be forced into feeding ourselves.

GRUENING: You are saying that the transportation systems may fail?

WOOSTER: I'm saying energy altogether---there's an article in the December Reader's Digest, I'll refer to it so that I don't get anything wrong. This is a five page ad and it's bought by Americans for Energy Independence. And the title is, "The Energy Shortage Could Bring Starvation - Have you Ever Thought of That?" Well, we've been looking at this since the world food crisis back in the early 70's. And, where is Alaska fit into the scanner? We have to feed ourselves. I think it is a must. And everything is shipped in here. That's put a higher cost on everything. I think we have to. There is no doubt about it.

MILES: What percentage of Alaska's current population, can you guess, would their agri-products be?

MEEKINS: Four.

MILES: Four?

WOOSTER: Did you say four?

MEEKINS: Four percent. That's what the testimony was yesterday.

WOOSTER: Now, with stimulation, it could change, you know, to 15 or 20, I'm sure.

MEEKINS: There was some interesting testimony yesterday. It said that we had in the state at any one time only a seven day supply of food.

WOOSTER: I'm sure that's true. If you had been here during the strike, you know how delicate the situation is.

GRUENING: Mr. Osterback, I think had a question. Go ahead.

OSTERBACK: Mr. Chairman, you know, I brought up this about transportation out on the chain. It's not that many people, but I would think, they use a lot of produce. And to get produce out of Anchorage you have to pay 38¢ a pound. If you bought a sack of spuds and you want it shipped out real quick, it cost you $38 on a 100 pounds of spuds. That's why I brought up this fairy tale. They say, why don't you order your stuff on the ferry from Seattle. It takes them

about two weeks to get up here by the time your fresh produce comes up through the chain, the food is spoiled. You'll feel a head of lettuce and know what I say. If we could get a ferry system or some kind of freight transportation from here, everybody would buy from them. The valley up here.

WOOSTER: Or establish some controlled environment agriculture. Now there has been a good experience down Soldotna way. There are some quick-growing products, but a controlled environment type of a---in a building say, you know, could help feed an area, cut down on costs, once the initial cost is spent.

MEEKINS: One other thing I'd just like to comment on is that yesterday we had a great number of people testifying in favor of---a great number compared to how many testified, only three or four probably---but in favor of agriculture and we always noted to them that there is a renewable resource development fund.

WOOSTER: We know that.

MEEKINS: OK. And I just---just for informational purposes ---because it in fact for agriculture in some respects is much more appropriate than the Permanent Fund.

WOOSTER: Now that's for growing, right? That's not for processing and marketing.

MEEKINS: Well, it depends on who you are and how you look at it.

GRUENING: Are there any further questions? Thank you very much. I notice there is one gentlemen who hasn't testified. Do you have any...? OK. Thank you.

I don't see any point in waiting for the next witness. So with that, we'll call these proceedings closed. We'll have further meetings in Anchorage. For those of you who haven't picked up a copy of this booklet, please feel free to do so.