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House Special Committee on
the Alaska Permanent Fund

Public Hearing, Feb. 4, 1978

NAME	ADDRESS	DO YOU WISH TO TESTIFY?
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Kay Kowakul	CEDC 1011 E Tudor; Anchorage 99503	yes
Geetha Manoj	CEDC 1011 E Tudor Anchorage 99503	no
Harold Tomeray	4048 Wright St 99504	yes
St Hosson	2100 LK 600 DR Arc 99504	yes
Jack O. Hahkila	Box 562 Fairbanks 99707	yes
P. Dewary	7310 Silver Birch	NO
John Hinton	3933 Geneva Place	NO
Jack Stout		
Jerry McWhitson		
John Handlock		

ANCST

NAME	ADDRESS	DO YOU WISH TO TESTIFY?
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Jack Stout

3419 W. 81ST, Anch.

yes

Shirley Reed

1361 W. 12th "

No

Jerry McCutcheon

Box 2340

yes

TESTIMONY FROM COMMUNITY ENTERPRISE DEVELOPMENT CORPORATION
ON HOUSE BILLS 596 AND 682

Community Enterprise Development Corporation of Alaska (CEDC) is a private, non-profit corporation funded by the federal government through the Community Services Administration. We were established in 1968 to assist low income rural groups develop businesses in their communities, by providing technical and financial assistance. Our staff of 45 is headquartered in Anchorage.

We have reviewed pending legislation on the management of the Permanent Fund, and find that several portions apply directly to CEDC and its purpose.

Rather than describe our programs and how they relate to this legislation, it will be simpler to review the process of business development as it occurs within CEDC. The possible relationship between CEDC and the proposed investment corporations will become apparent.

An idea for a rural business is brought to CEDC. At the outset this idea is very nebulous. The people often do not have the skills or money to formulate the concept into an operating entity. CEDC has the staff with the background in community and economic development to assist the community in: (1) determining whether or not the venture is feasible, and if it is; (2) designing a structure and operating plan for the business; and (3) obtaining financing. Our intent during this phase is to train these groups to make knowledgeable business decisions.

Once the business is financed and established in the village, further training and monitoring is provided by CEDC. Field accountants visit the venture regularly to train the local

people and monitor their programs. Fisheries and retail specialists also provide on-site assistance. An expediting service acts as a liaison between the village and merchants. Training is also offered to the venture boards of directors.

CEDC may provide financial assistance to these ventures through equity investments or debt financing. CEDC's participation occurs only when the commercial lending institutions reject requests for funding or provide partial financing.

Although these ventures are considered high risk businesses because of their rural location and lack of formal business expertise, CEDC recognizes that this need not preclude their long term viability. CEDC also understands the benefits realized by the villages through jobs, training, and services not otherwise available, which are provided by these ventures.

CEDC has structured its financing assistance to assure continued availability of capital for rural enterprises. Investment income and loan repayments are returned to a pool for use by more rural Alaskan businesses.

House Bill 596 is obviously applicable to our goal of economic development in rural Alaska. We are encouraged by this committee's obvious awareness of the unmet capital needs of small and medium sized businesses. And because fisheries development has been CEDC's first priority, we strongly support House Bill 682, which establishes the Alaska Renewable Resources Corporation.

We would like to suggest that the committee incorporate the following two concepts within House Bill 596 pertaining to paragraphs (c) and (d) of Section 44.55,125, INVESTMENTS:

- (1) develop a formula for the distribution of funds for rural and urban areas, having first defined "rural" and "urban"; and

- (2) recognize existing institutions which presently deliver rural economic development programs, and provide for their possible participation in the administration of the fund.

The addition of these two provisions is necessary to ensure that a regulated flow of capital funds is channeled to rural areas. The village population is becoming increasingly outnumbered by urban residents, obviating the use of the voting process in mandating rural needs and concerns. The State, therefore, must recognize the minority position of the rural residents. And it must build safeguards for this minority into legislation for programs such as the Alaska Enterprise Investment Corporation.

While the federal government has recognized the economic needs of rural Alaska through the funding of CEDC, there is no guarantee that the level of support will continue. And because the capital needs of rural businesses are not being met by commercial institutions, the State has now an excellent opportunity to fulfill this need while meeting its own investment requirements as set forth in this legislation.

CEDC's sole purpose for the past ten years has been the economic development of rural Alaska. We have built an experience base concerning the unique situations encountered in financing village businesses. We have developed criteria for evaluating proposals and acceptable standards of operation. We have worked slowly but continuously in developing our assets, both financial and human.

In implementing its investment and loan programs under the Permanent Fund, the State should recognize that CEDC's experience can help to avoid the pitfalls awaiting it. CEDC has been working to avoid the duplication of efforts that so

often occurs between various state and federal entities. We would hope that this committee is also anxious to reduce this waste. Therefore, CEDC is willing to assist in your efforts to define the sectors in rural Alaska which need financing; the size and nature of projects which are feasible; and to forecast the capital requirements as outlined in House Bill 596, Section 44.55.140, INITIAL DETERMINATION. Further, CEDC is in an ideal position to assist in the delivery of the State's financing of rural businesses.

An informational brochure describing CEDC and its programs is attached for your review.

Alaska State Legislature

SPECIAL COMMITTEE ON
THE ALASKA PERMANENT FUND

~~ANCHORAGE, AK. 99501~~

~~528 W. 5TH, SUITE 270~~
~~ANCHORAGE, AK. 99501~~

[POUCH V, JUNEAU, AK. 99811]

(907) 465-3873



MEMBERS

REP. CLARK GRUENING, CHMN.
REP. TERRY GARDINER, V. CHMN.
REP. E. J. HAUGEN
REP. RUSS MEEKINS
REP. BILL MILES
REP. LEO SCHAEFFER
~~REP. JOE HAYES~~

Rep. Joe Hayes

House of Representatives

January 26, 1978

Dear Legislator:

The House Special Committee on the Alaska Permanent Fund will hold public hearings on House Bills 4, 298, 595, 596 and 682 beginning at 10:30 AM February 3 in the Fairbanks Borough Assembly Chambers, 520 5th Avenue and February 4 beginning at 10:00 AM in the Jury Assembly Chambers, Room 402, of the Anchorage Court Building. Those wishing to hear or offer testimony on these bills are invited to attend.

Alaska State Legislature

SPECIAL COMMITTEE ON
THE ALASKA PERMANENT FUND

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House of Representatives

To the Fairbanks Daily News Miner:

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To run February 1 and 2 as a 2 x 4 ad. Please place immediately and bill to this Committee.

Alaska State Legislature

SPECIAL COMMITTEE ON THE ALASKA PERMANENT FUND

~~XXXX XXXXXX~~

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~~XXXX~~ ANCHORAGE, AK. 99501

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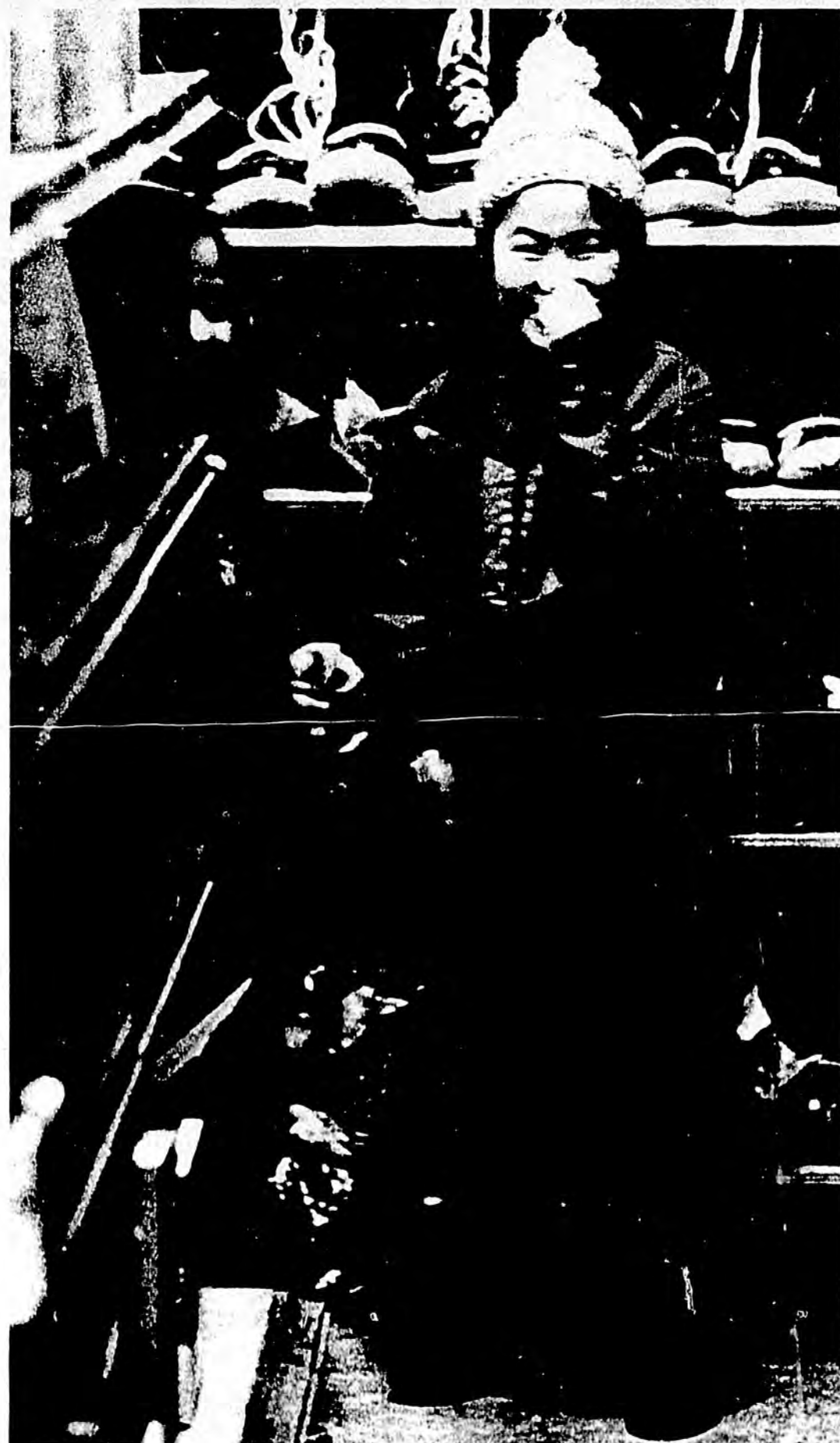
House of Representatives

Public Service announcement for all Fairbanks radio stations.

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**Community Enterprise
Development Corporation
of Alaska**





History

Community Enterprise Development Corporation of Alaska (CEDC) is a private, non-profit corporation funded and operating under the guidelines of the Community Services Administration (CSA), formerly the Office of Economic Opportunity.

The present CEDC organization evolved from an adaptation of a proposal entitled "Towards a Better Tomorrow" which was written in 1967 by the Alaska State Community Action Program (now known as Rural Alaska Community Action Program - RurAL CAP), and submitted to the Community Services Administration for a demonstration grant. This proposal was written in response to the need expressed by various Alaskan communities for a means of receiving financial, technical, and training assistance in the development of locally-owned businesses. Originally proposed to be titled "Alaska Guild of Native Industries, Arts and Crafts", the corporation was to provide the needed liason between the village business and the urban wholesalers, buyers, and financial institutions.

In the spring of 1968, a new proposal was submitted to CSA for the continued funding of CEDC and was favorably received. By that fall, CEDC received funding as a delegate agency of RurAL CAP and provided technical assistance to ten communities in rural Alaska. In August of 1969, CEDC became an independent, non-profit corporation which was funded by CSA as a legally titled "Community Development Corporation".

Purpose

CEDC's impact area includes all of rural Alaska (excluding the urban cities of Anchorage, Fairbanks, Juneau, and Ketchikan), which encompasses over half a million square miles and is inhabited by approximately 106,000 people living in over 285 towns and villages.

Using seed capital from CSA, other government and state agencies, and private sources, CEDC assists in developing and supporting business enterprises in the low-income areas of rural Alaska. In addition to financial assistance in the form of loans to new enterprises, the corporation also provides training and technical assistance for the business manager, employees, and board of directors.

Since its incorporation in 1968, CEDC has assisted over 60 community-owned businesses throughout Alaska. These businesses vary according to community needs and desires, but have included industries such as fish processing, consumer stores, real estate, tourism, fuel distribution, and construction. Each of these businesses is managed by its own staff and board of directors.

CEDC's main purpose is to create an economic impact on the communities of rural Alaska by providing them with an opportunity to participate in the free enterprise system.

INTRODUCTION

Membership

CEDC has a statewide membership which has full ownership authority over the corporation. The membership consists of a representative from each of the ten Rural CAP regional development areas; a representative from each of the twelve regional corporations as defined under the Alaska Native Claims Settlement Act (ANCSA) of 1971; a representative from each of the enterprises that CEDC has provided with substantial technical and financial assistance; and three representatives of the Alaska business community.

The inclusion of the Rural CAP regional corporation representatives and the ANCSA regional corporation representatives insures that the CEDC program maintains an objective statewide outlook and does not develop into a corporation serving a special geographical group. In addition, these representatives also provide CEDC with input concerning the economic needs and potentials of these various regions, thus allowing for coordination of CEDC's program with other native corporations. The representatives of the community enterprises which CEDC has assisted form the largest single block of members. This guarantees that CEDC is controlled and directed by those people it was designed to serve.

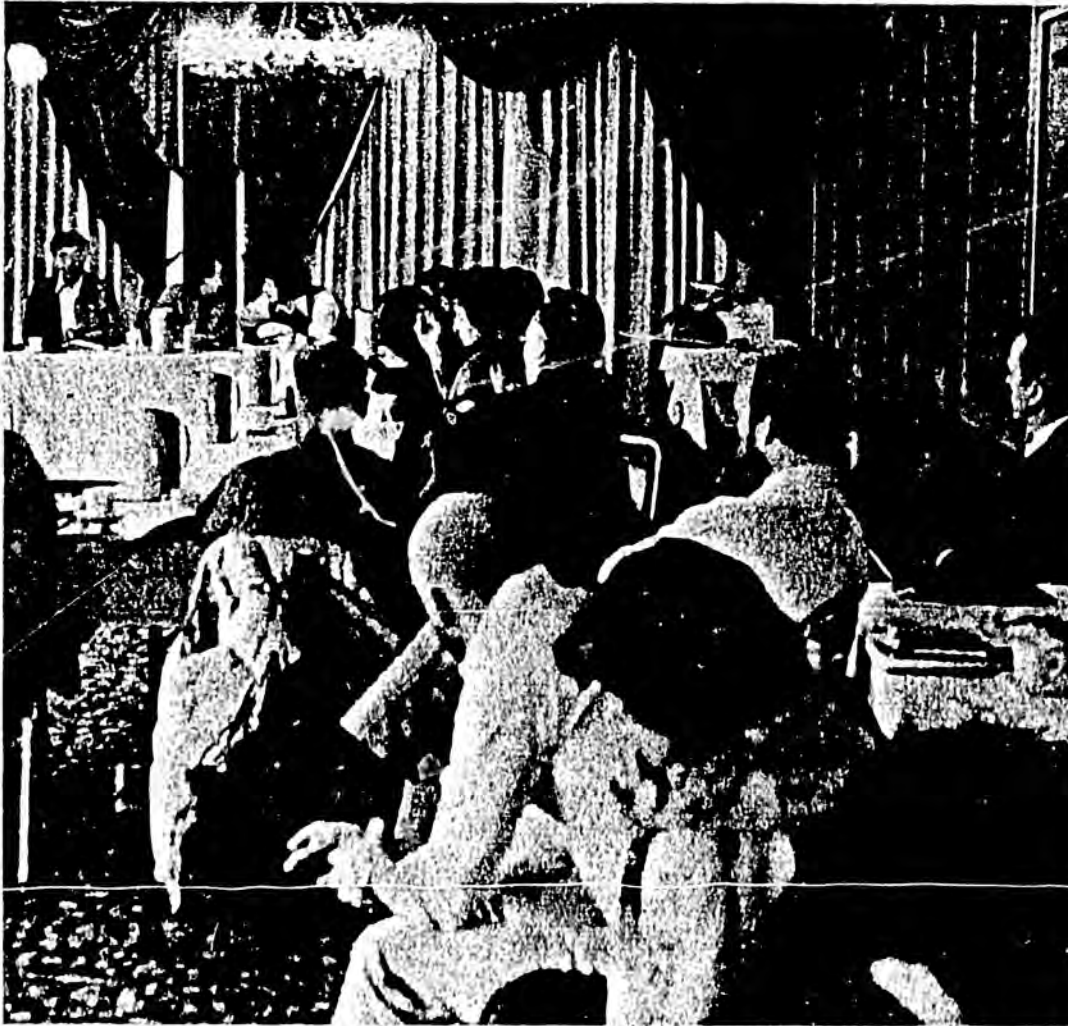


The board of directors of the Rural CAP regional corporations, the ANCSA regional corporations, and the community enterprises each select one person to represent that organization on the membership of CEDC. These representatives are then responsible for reporting back to their organizations on the activities of CEDC. In this way, communication between the people of the target area of CEDC and the corporation is maintained.

To become a member of CEDC, a community-owned enterprise must petition the CEDC board of directors for membership. To be eligible, the enterprise must be broadly owned by low-income people who are actively engaged in the management of the enterprise and benefit from the enterprise's existence, and CEDC must have provided substantial financial and technical assistance.

The membership of CEDC meets once a year, unless a special meeting is called, and elects the board of directors which functions as the policy making body of the corporation.

ORGANIZATIONAL
STRUCTURE



Board of Directors

The board of directors of CEDC is elected each December at the annual membership meeting.

The board of directors consists of thirty members and includes the officers of the corporation. Of these, twenty seats are held by representatives from the community-owned enterprises; seven seats are filled by representatives of the ANCSA regional corporations and RurAL CAP regional corporations combined; and three seats are held by Alaska business community representatives. Although they have full voting powers and can serve on the various committees, the business representatives cannot be elected to an office in the corporation.

The board of directors meets three times a year, unless a special meeting is called. It reviews the actions taken by the executive committee, measures the corporation's progress, sets policy which provides for the management of the corporation, and makes recommendations to the membership.

ORGANIZATIONAL
STRUCTURE



Committees

CEDC's board of directors annually elects an executive committee which is comprised of the five officers of the corporation (President, Vice President, Treasurer, Recording Secretary, and Corresponding Secretary) and four members-at-large.

In order to assure representation from the entire target area of CEDC, no more than two members of the executive committee may be from the same region (as defined under the Alaska Native Claims Settlement Act).

To provide for organizational continuity within the corporation, one-third of the executive committee members serve overlapping terms.

The executive committee meets on the average of every six to eight weeks and assumes the duties of the board of directors concerning the management of the corporation.

All actions by the executive committee are subject to ratification by the full board of directors. Such actions include the approval or disapproval of requests for technical, training, and financial assistance to enterprises; the monitoring of on-going projects; reviewing the financial situation and budget matters of the corporation; and the defining of goals and policies to be followed by the corporation.

In addition to the executive committee, the board has five other standing subcommittees. These committees consist of the grant and loan review committee, the personnel and program policy committee, the budget and finance committee, the information and education committee, and the election committee. Additional committees may be formed by the board of directors as they are required.

These communities meet periodically to make recommendations to the executive committee, board of directors, and staff concerning procedures and programs of the corporation.

Management

The board of directors is responsible for the management of the corporation and exercises this duty by delegating the responsibility to the executive director of the corporation. The executive director is hired by the board of directors.

The executive committee and other special committees of the board work closely with the executive director to determine goals and develop short and long range plans and budgets, while adhering to CSA guidelines and promoting the philosophy and objectives of the corporation. To fulfill his responsibilities, the executive director employs and gives direction to a staff that is competent to carry out the directives of management in its efforts to develop successful enterprises.

The staff of CEDC is organized into six main groups according to primary functions within the corporation: executive, administration and personnel, development, fisheries, operations, and expediting departments.



Executive Department

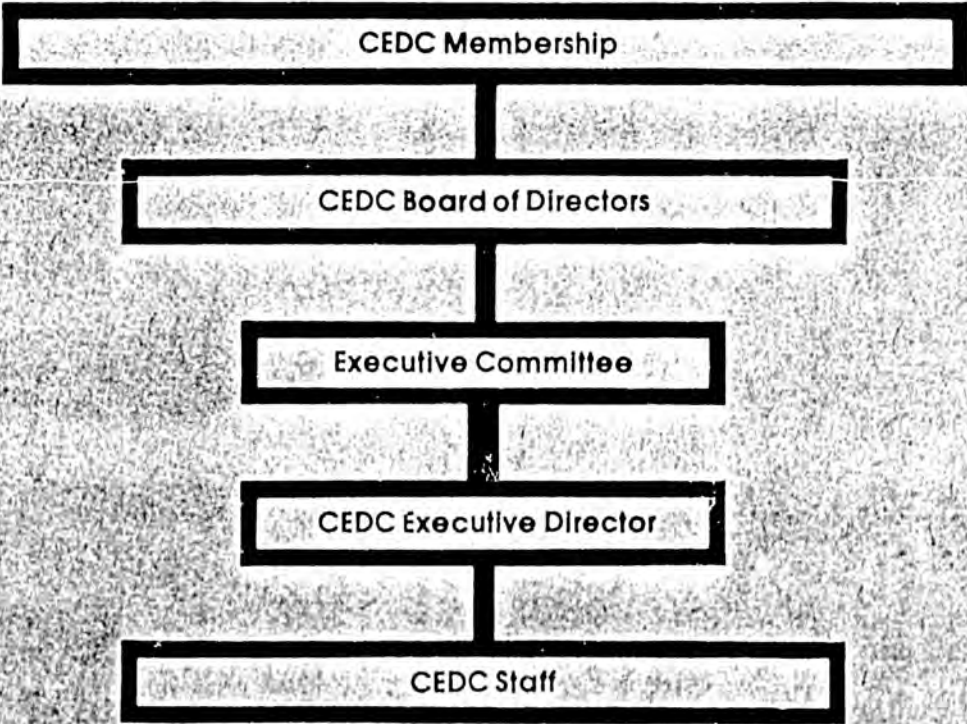
The executive department is composed of the executive director, deputy director, controller, and in-house attorney. The department's back up staff consists of an administrative assistant, two external auditors, an accounting technician, travel clerk, and legal secretary, who also serves as the board secretary.

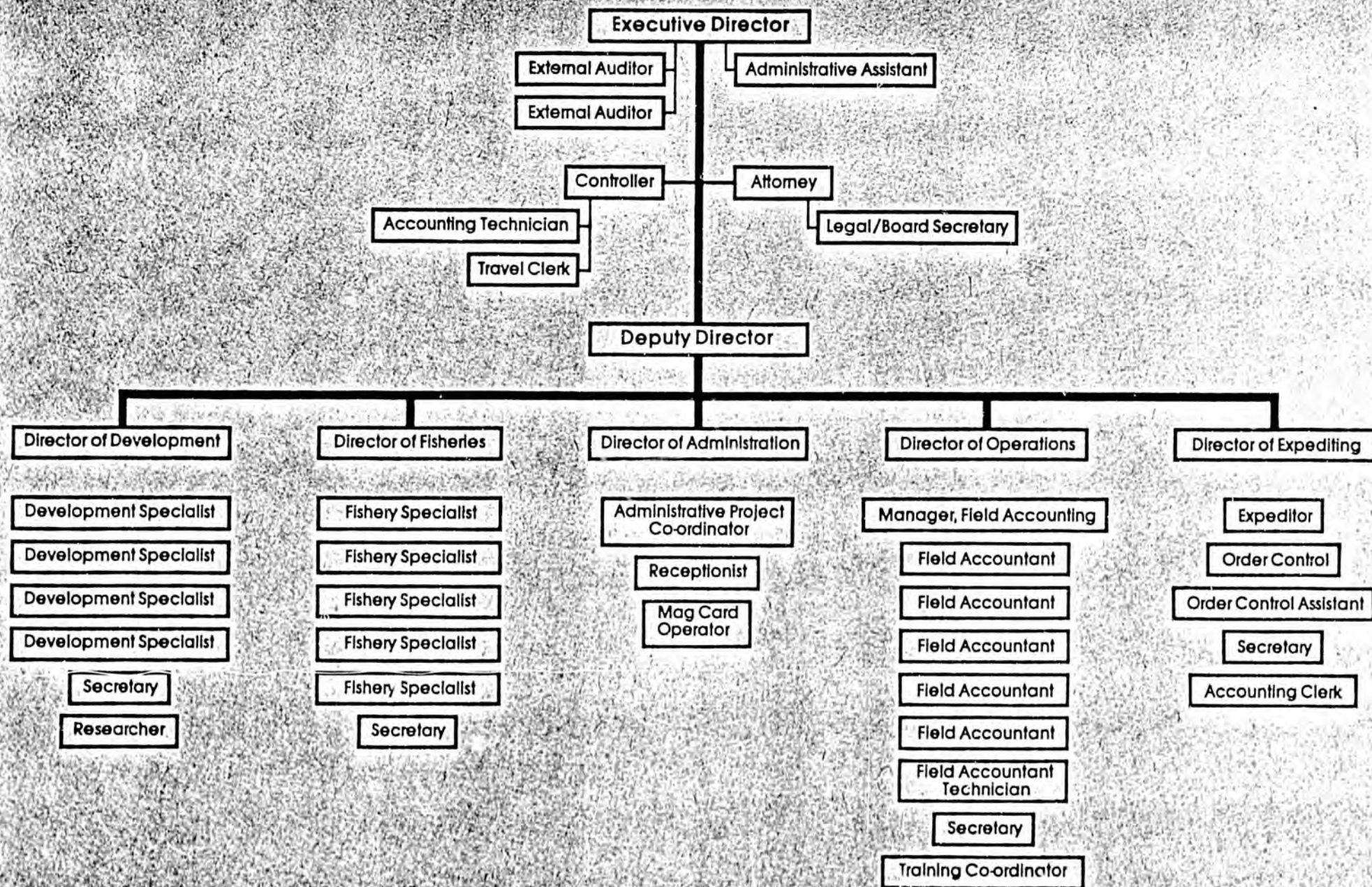
The department works closely with the directors of the other departments to maintain the flow of communication within the corporation.

Responsibility and authority are delegated by the executive director to the department heads, who provide the information to insure that CSA requirements, board policies and recommendations, department budgets, and the overall operational plan for CEDC are being followed. The department heads also provide support information to assist in decisions made by the executive director.

ORGANIZATIONAL
STRUCTURE

6 CEDC Corporate
Organizational Chart





CEDC Staff
Organizational Chart

Department of Administration and Personnel

The department of administration and personnel performs a support function to the executive director and other departments of the corporation. The director of administration and personnel is responsible for managing CEDC's personnel and recruitment program, managing CEDC's property and supplies, providing special research services, clerical services, and the development of publications and public relations materials. The staff is composed of the administrative project coordinator, the IBM mag card operator, and the receptionist.



Development Department

The development department has seven full-time personnel: a director, four business analysts, a research specialist, and a secretary. The department consults with outside corporations for specialized work such as appraisals, architectural and engineering design.

The department has expertise in project management, community organization, retailing, corporate structures, accounting, market analysis, real estate, research techniques, contract and financial negotiations. The department has worked with retail outlets, fisheries related industries, real estate projects, manufacturing plans, fuel distribution, tourism facilities, credit unions, and many other types of industries.

The development department has an extensive resource library that has been accumulated over ten years of dealing with rural Alaska economic development. This library has general reference books on business techniques, economic and demographic information on Alaska, regional and village studies. In addition, the development department maintains files on state, federal, and private funding sources and assistance programs.

The department is responsible for processing all requests for business assistance and any research projects that arise.

Once CEDC receives an inquiry for business assistance, development department screens the applicant for eligibility, and how it meets corporate priorities. The department then compiles preliminary information on venture management, operation, ownership, location, and financing requirements. Based upon the analysis of this information, the department recommends whether to complete a full feasibility study. If a positive decision is rendered by the CEDC board, the department begins the study.

The feasibility study represents the culmination of an investigation of all options available to the proposed venture. The study provides a complete picture of the venture for its first two years of operation. The primary attributes of the region and village's economy are analyzed to evaluate the basic foundation of the business. Conclusions are made on the volume of business that the venture will achieve. From this framework, the venture's operation is planned: the management team is identified, accounting safeguards anticipated, facility is blueprinted, inventory patterns are laid and operational strategy is defined. The venture's financing requirement is computed and negotiated in behalf of the venture. Other assistance programs, such as training, are also identified and negotiated as required or requested. The venture's budget is outlined on a month by month basis for the first two years of operation. The study also identifies breakeven points that the venture must meet, and the venture's return on investment. The impact of the business is also identified, with special emphasis on jobs, wages, and other benefits to be realized by the community. All venture documents are attached to the feasibility study including all legal documents, appraisals, resumes, architectural drawings, and site maps.



The department also completes special research assignments as needed. In the past, development has compiled data required for CEDC's refunding effort, impact statements and supporting testimony for funding of economic development and job creation projects on the national level.

CEDC works within the goals and objectives of the community, and involves the local board on all major decisions regarding their venture. The department tries to develop the business relationship in a way that is mutually satisfactory to the village and CEDC.

The development department advises its clients that it may conclude that their business idea is not viable. The department maintains an objective view of the project. All of the financial projections are made as conservatively as possible to ensure that unanticipated cost overruns do not jeopardize the venture. The department utilizes the most current business techniques available to assess venture viability.

ORGANIZATIONAL
STRUCTURE

Fisheries Department

In recent years, the consumer demand for seafood products has exceeded the supply, causing the market values to increase dramatically. This increase in value coupled with improved air transportation, which allows rapid delivery of fresh fish products at reasonable rates, has made seafood processing projects economically feasible that would not have been a decade ago. This change has made business opportunities available to people who have primarily fished for subsistence with minor commercial sales.

Although rural Alaskans are expert fishermen, they have been constrained by lack of capital for modern equipment, knowledge of new processing techniques, and business concepts such as marketing and plant management. The CEDC staff utilizes a team approach to provide the necessary technical assistance to develop and operate the fishing enterprises. The first step is the coordination between the development department, fisheries department, and the venture personnel to develop a plan of operation that will provide the greatest return. After the development of the project, the fisheries staff becomes directly involved with the venture to assist in the building and operation of the plant itself. Assistance is also provided in marketing of the product. Emphasis should be given to the fact that the fisheries staff does not do the work for the venture, but rather in cooperation with the venture. This team approach is done to provide the most meaningful learning process possible.



Expediting Department

The expediting department is responsible for the development, implementation, and administration of a purchasing program for CEDC assisted enterprises. It functions almost completely as a support department. For example, the expediting department finds the best price and shortest delivery time for store merchandise. The expediting department then follows up to see that the orders are received by the store, and accurate records are kept of all transactions. This results in the availability of better product selection and a greater inventory variety, which enables the stores to be competitive in service and pricing.

The expediting staff also assists in the initial feasibility and development of co-op store ventures as well as assisting in merchandising management.



Operations Department

The department of operations is responsible for providing those support services to the ventures which are necessary for the enterprises to operate successfully. These services, including accounting assistance and training, management training, marketing, merchandising, and purchasing assistance, aid the ventures in attaining self-sufficiency and autonomy from CEDC. The department of operations is divided into two offices: field accounting and training. Field accounting consists of the manager of field accounting, six field accountants, and one accounting technician. Field accountants visit each venture and assist in the preparation of financial statements, analytical documents, and tax returns, as well as providing management and bookkeeping training. Financial statements and analytical information are necessary tools in good management of any venture, as well as complying with governmental agencies' requirements. By implementing basic bookkeeping, internal controls, and adequate reporting, small businesses in rural Alaska are becoming more independent and profitable.

The training division provides the venture board of directors with assistance in parliamentary procedures, compliance and comprehension of by-laws, and board/staff reporting. It is imperative for the success of each venture that the board of directors understands and carries out their responsibility and authority. The venture must also maintain a good channel of communication from its management to its board of directors.

ORGANIZATIONAL
STRUCTURE

Eligibility Guidelines for CEDC Assistance

- (1) The venture must be broadly owned with a minimum of fifteen (15) members. The business may be structured as a corporation, cooperative, subsidiary or joint venture, and the entity may be profit or non-profit. CEDC has worked with organizations such as village and regional ANCSA corporations, city governments and IRA councils.
- (2) Most of these owners must be low income, as defined by CSA poverty guidelines.
- (3) The venture must be located in, and service, rural Alaska. CSA defines rural Alaska as everything outside of Anchorage, Fairbanks, Juneau, and Ketchikan.
- (4) The enterprise must further the permanent economic and social benefits in the area: It must provide a needed service or product, employment and ownership opportunities, and management skill development.

How to Apply for Business Development Assistance

- (1) The applicant must submit a letter to the executive director of CEDC explaining the business idea. Note that the letter must come directly from the village.
- (2) This letter is then referred to the CEDC development department for preliminary screening. To complete this, development requests the following information:
 - (a) village board resolution - This resolution should state what assistance the applicant wants CEDC to provide: feasibility study and/or financing. This resolution must bear the signatures of both the board of directors' president and secretary.
 - (b) project information - To the best of the applicant's knowledge, a project description must be submitted. This must include information on:
 - (1) type of venture
 - (2) ownership
 - (3) location of business
 - (4) management and operation
 - (5) estimated funding
- (3) If CEDC findings are positive, the resolution and project information is presented to the CEDC grant and loan review committee for a decision on whether to allow the CEDC staff to continue work on the project.
- (4) If the executive committee ratifies a positive grant and loan review decision, the staff begins a comprehensive feasibility study and financing proposal.
- (5) Once the study is completed and tentative financing is negotiated, the package is presented to the grant and loan review committee for review and analysis. If the executive committee ratifies the grant and loan review committee's positive recommendation to fund the project, the package is forwarded to CSA in Washington, D.C. for its decision.
- (6) With CSA approval, the funds are released and the venture is started.

**APPLYING
FOR ASSISTANCE**

CEDC Enterprise Assistance Available

1. Financing

(A) Long Term Loans

- (a) 7.5% (simple) interest rate;
- (b) term not to exceed 15 years;
- (c) must be approved by CEDC executive committee or board of directors and CSA in Washington, D.C.

(B) Special Short Term Loan Fund

- (a) 7.5% (simple) interest rate;
- (b) term not to exceed 6 months;
- (c) established relationship with CEDC;
- (d) no more than \$15,000 to be loaned to any one venture;
- (e) must be approved by CEDC executive director;
- (f) total outstanding balance of all CEDC short term loans cannot exceed \$90,000.

(C) Revolving Fund

All money repaid from long term loans does not return to the federal government, but remains in Alaska on deposit in a revolving fund. This revolving fund is then used to further rural economic development through additional loans to communities for enterprise development. Disbursements from this fund must be approved by the Executive Committee or Board of Directors.

(D) Fishery Loan Fund

- (a) available to all CEDC assisted fishing ventures currently in good standing with CEDC;
- (b) 7.5% (simple) interest rate;
- (c) to be repaid at the end of fishing season;
- (d) must be approved by CEDC executive committee or board of directors;
- (e) \$250,000 limit per venture per season;
- (f) total outstanding balance of all loans cannot exceed \$600,000;

2. Technical and training assistance is approved by CEDC until such time as the enterprise is self-sufficient.

3. Accounting assistance is provided to venture assisted by CEDC as needed.

An attempt to obtain financing from other sources must be made prior to CEDC participation.



APPLYING
FOR ASSISTANCE

COMMUNITY ENTERPRISE DEVELOPMENT CORPORATION OF ALASKA
1011 E. Tudor Road, Suite 210
Anchorage, Alaska 99503
Phone: (907) 279-4551

Funded by the COMMUNITY SERVICES ADMINISTRATION
Grant No. 00007F-F-77-02



Design: C.E.D.C. Staff

M E M O R A N D U M

TO: Clark Gruening, Chairman, House Permanent Fund Committee

FROM: Lee Gorsuch, Director, Institute of Social and Economic
Research, University of Alaska

SUBJECT: Alaska Native Regional Corporations and the Permanent Fund

February 1, 1978

In late July, we agreed to include several questions related to the Permanent Fund in the study of regional corporations we are conducting in collaboration with the Alaska Native Foundation. The questions included were designed to (1) ascertain Native regional corporation views of potential Permanent Fund investment needs and of possible opportunities in rural areas, and (2) explore potential areas of cooperation between the Permanent Fund and Native corporation investments.

We have made no material changes in the responses we received, nor have we analyzed them. The responses constitute the views of selected executives of six of the twelve Native regional corporations. This memorandum summarizes the responses we obtained which included specific ideas and examples of investment opportunities and perceptions of the broader Permanent Fund policy issues.

While our overall study covers all Native regional corporations, we were only able to address the Permanent Fund related questions to six of them. This is due primarily to our survey having already been completed in a number of regions prior to the add on of the Permanent Fund related questions in late July.

General Investment Policies and Goals

Respondents were asked for their opinions as to what Permanent Fund investment policies and goals should be in general and how they should apply to rural areas in particular.

All respondents supported the concept of the Permanent Fund and generally regarded it to be of great potential value in meeting rural area needs.

Clark Gruening
February 1, 1978
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Some Specific Comments

- o The Fund should be used primarily to ensure that there is sound and steady growth in the economy of the state. Don't want rapid growth booms and busts... Use the Fund to help stabilize the economy... Help knock out the valleys and knock off the peaks on the economic growth of the state.
- o The Permanent Fund should not be used to any great extent to subsidize something that cannot naturally occur or at least stand on its own after a brief period of time... Don't like the idea of subsidized business, but could use the Fund to help get things going and then get out; that sort of thing.
- o Remove from political spectrum.
- o Can't differentiate between urban and rural areas and projects. Need to look at each individual investment... The availability of other funding in urban areas and lack of it in rural areas, will soon take the Permanent Fund to rural areas and small communities.
- o Rates of profit are not commensurate with the risks that exist in rural areas... If the Permanent Fund has a goal of doing something for rural Alaska, it is going to have to accept something other than the maximum return. But this may be justified by reducing other costs or enhancing other returns to the public than directly in terms of Permanent Fund growth... Rates of return can take into account broader values through shadow pricing.

Relationship Between Permanent Fund and Regional Corporations

All respondents expressed an interest in having Permanent Fund monies available to regional corporations in support of their in-state investments.

There was consensus that the Permanent Fund should be a source of funding and perform a role comparable to that of a bank. It should provide funding on the basis of proposals and appropriate collateral, similar to EDA, FHA, state loan programs, etc.

While emphasis was on loan programs, the possibility of joint ventures was also envisaged. Under such circumstances, according to our respondents, the Permanent Fund should provide money only, not

Clark Gruening
February 1, 1978
page 3

management. It would, in effect, become a limited partner, with the applicant corporation functioning as the general partner. The respondents fully accepted the accountability associated with the partnership arrangement but were insistent that the state should not be directly involved in management of particular enterprises.

Interest was also expressed in intermediateterm financing. Commercial banks generally finance projects on a 5-7 year term, maximum, and insurance companies lend for a period of 20-30 years. The respondents felt a void exists in the availability of 3-20 year money.

Respondents also emphasized the need to make money available expeditiously, without too much red tape and delay. (It was suggested that sometimes the real cost of "cheap" money (e.g., 5%) turned out to be about 20%.)

One respondent saw no reason to support Native corporations by virtue of their being Native corporations or just to put money into the bush. This respondent suggested that the Permanent Fund participate only when a beneficial investment can be shown. At the same time, this respondent felt that there were many opportunities for "beneficial" investments in rural areas and with Native corporations.

Financing Corporation Investments

An attempt was made to elicit specific examples of situations where the Permanent Fund could today assist, or could in the past have assisted, with the financing of regional corporation projects:

- o The Harbor View apartment complex in Kodiak is at this time financed by a credit union (50%) and by Koniag Corporation (50%). The project meets local needs, creates jobs - and is carrying itself. No commercial institution would touch the project initially, and public funds would have helped. Even today, Permanent Fund participation in the project's financing could free Koniag equity and enable Koniag to initiate other projects. As Mortgagor, the Permanent Fund's investment would be secured by a profitable real estate project.
- o Similarly, Ahtna Lodge at Glenallen has a very high regional corporation equity. Additional financing was provided under the State Tourism Loan Program, by a private bank, and by CEDC. Refinancing of Ahtna's equity would free its capital for further investments. If the interest rates of the new capital provided by the Permanent Fund were lower than current ones, profitability could be achieved earlier even with a higher debt level.

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- o Cook Inlet has several high yield projects, including office buildings and hotels, where conversion of equity into a loan, consolidation of existing debt, and refinancing of existing medium-term notes could all have a very favorable economic impact on the corporation.
- o Most of respondents regarded fisheries to be one economic activity in which Permanent Fund loans or guarantees could have made investments possible in the past and could still facilitate projects presently and in the future. In each case, capital requirements were viewed as having been or being too large to be borne solely by the regional corporations. Among the investment possibilities cited were major high seas processing ships; boats and on-shore plants; and a large enterprise involved in harvesting, processing, and sales of sea foods.

Areas of Prospective Investment

Fisheries and mineral resources development and processing were mentioned over and over as prime candidates for future Permanent Fund support in the various regions.

As might be expected, the principal emphasis in fisheries was on high seas and on-shore facilities related to taking full advantage of the extended (200 mile) fisheries jurisdiction in the waters adjacent to Alaska. Great opportunities are seen for large-scale protein development, but concern exists about obtaining initial financing for what, in effect, will constitute a new approach to fisheries in the United States. Financing is seen as being required for large fleets, on-shore installations, transportation and marketing, research -- in other words, everything to initiate broad utilization of off-shore fisheries.

A number of regions currently have mineral contracts with options to participate in production if exploration indicates existence of economically feasible resource deposits. Exercising such options will mean that regional corporations will have to pay a share of future costs. While under such circumstances private financing of what would likely be large capital requirements could probably be arranged, respondents felt the Permanent Fund could earn a high yield by financing such ventures... Specific opportunities suggested for Permanent Fund involvement in the minerals area were the development and industrialization of the Beluga coal fields and the establishment of a cement manufacturing plant. Aside from these specific areas, others were mentioned only in general terms. These included geothermal energy development, housing and investment guarantees, and OCS-related projects.

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Other Comments and Suggestions

Human resources development was stressed by a number of respondents. While several pointed to job creation as a major goal for rural areas, another respondent saw this factor pertinent only as a consideration if judging between two projects of equal merit, believing that most investments in Alaska would assist with local employment.

One respondent saw the lack of people with interest, attitudes, and skills appropriate to business and financial management as the greatest obstacle to development in rural Alaska.

A suggestion was made that the Permanent Fund could facilitate some sort of one-stop-financing service. The idea came up in connection with a discussion of constraints facing small business, where money may be available but not getting to where it should or could be. Many existing financial institutions simply do not service rural areas. A servicing facility or process sponsored in connection with the Permanent Fund could actually facilitate the availability of commercial financing and of other funding sources, such as EDA, SBA, BIA, and others.

The hope was also expressed that the Permanent Fund would encourage a greater understanding of rural investment opportunities and investment environment. It was pointed out that most of the demand studies and many feasibility studies done for rural areas are based upon urban notions of yield and, therefore, often greatly understate risks and misinterpret the return opportunities. Even the most skilled appraisers are not sufficiently qualified to deal with rural areas and make appropriate judgements. If the Permanent Fund is to obtain good feasibility studies, our respondents felt it will need to develop its own capability to analyze economic and business opportunities or to sponsor somebody else in development of the appropriate analytic capability, as does the World Bank and other international lending institutions.

In conclusion, I want to emphasize that ISER has not analyzed or endorsed the suggestions offered above nor should they be interpreted to be an official position of the Alaska Native regional corporations. Rather, these are the views of several executive officers of the corporations.

LG/m