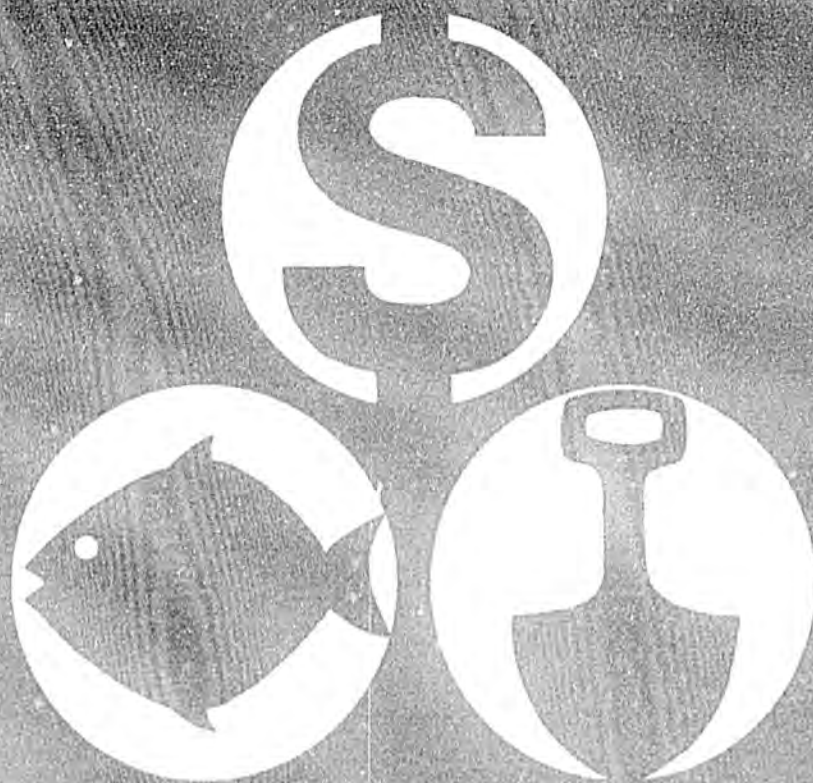


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The Role of the Permanent Fund in Alaska's Future



**A Preliminary Report by
the House Special Committee
on the Alaska Permanent Fund**

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The Alaska Permanent Fund
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I Introduction

An overwhelming majority of Alaska voters approved an amendment to the state constitution in November 1976 which provides that at least 25 percent of certain state nonrenewable resource revenues be placed in a permanent fund. The amendment requires that the fund's "principal shall be used only for those income-producing investments" the legislature designates as eligible for permanent fund money. The amendment also provides that income from the investments will go into the State's General Fund (where all other revenues and taxes are deposited) unless the legislature designates that income for other purposes.

In 1978 the Tenth Alaska Legislature will consider several different proposals for management and organization of the fund and use of the fund's earnings. Three bills introduced in the 1977 session were referred to the House Special Committee on the Alaska Permanent Fund. Our task is to find out what Alaskans want the fund to achieve and to recommend legislation for a permanent fund that can best attain those goals.

The intent of this report is to inform Alaskans about the Alaska Permanent Fund—how it evolved, present management, possible future roles, and investment and management options for

its principal and earnings. This report also allows committee members to state what they feel are the main issues to be resolved in the permanent fund enabling legislation.

We hope that you will take the time to study this booklet, jot down your comments and questions as you read, and send us your views by filling out and mailing the questionnaire on the back cover. You may obtain further information about the Alaska Permanent Fund by calling or writing:

House Special Committee
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Above all, please watch for and participate in the public meetings and forums on the Permanent Fund to be held throughout the state beginning in September. If we have your comments by then, we can incorporate your ideas in the Public Forum program. Legislators will attend each forum to discuss the Permanent Fund, answer your questions, and find out what you want your Permanent Fund to be.

II Evolution of the Alaska Permanent Fund

The permanent fund idea in Alaska gained popularity only after the \$900 million North Slope lease sale in 1969. Following this sale, the Brookings Institute conducted a series of seminars concerning "The Future of Alaska." More than 100 Alaskans were invited to attend, to explore some of the major emerging policy issues, and to set forth a plan for Alaska's future. The participants agreed that the "Alaska way of life" should be preserved. They defined this life-style as one which combines the conveniences of technological innovation with the opportunity and values of living as close to nature as possible.

After the Brookings seminars, several bills were introduced in the 1970 legislative session to establish some sort of "permanent fund" with the \$900 million. However, other more immediate uses for the money were judged to be more important, and no permanent fund was established.

The 1974 legislature passed a bill creating the Alaska Renewable Resources Development Fund. This legislation provides that not less than five percent of nonrenewable resources income will be deposited in a separate fund beginning July 1, 1978. Monies can be appropriated from the fund only for capital and operating expenditures for the rehabilitation, enhancement, and development of renewable resources programs.

Another bill, which would have created a permanent fund by statute, passed the legislature in 1975. However, because of a disagreement with the legislature over constitutionality, the governor vetoed it. The 1976 legislature passed House Joint

Resolution 39, calling for a constitutional amendment to establish the Alaska Permanent Fund. The voters approved that amendment in November 1976 by a margin of nearly nine to one.

The amendment lifted the prohibition against special dedicated funds to allow a minimum of 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue-sharing payments, and bonuses to accumulate in a special fund separate from the General Fund. The only restriction on the use of the principal of the fund is that it must be for "income-producing investments" and, therefore, not for the general operating costs of government. The income from these investments will be deposited in the State's General Fund unless otherwise provided for by law.

The Joint House Finance and Judiciary Committee Chairmen's Report, detailing legislative intent for HJR 39, stated that sufficient revenue would be accumulated in the Alaska Permanent Fund to allow diversification of Alaska's economy and to insure that future generations receive benefits from development of the State's nonrenewable resources. The report noted that the fund would be restricted to income-producing investments "which the legislature would establish and change from time to time to meet the needs of the state." Use of the fund's earnings was left open to the legislature "to give future legislatures the maximum flexibility in using fund earnings—ranging from adding to fund principal to paying out a dividend to resident Alaskans."

The principal represents Alaska's mineral wealth transformed into dollars through the sale of natural resources to private developers. The legislature must decide what forms of wealth-preserving and income-producing assets this money should take. Our mineral sale revenues have recently been financing about 60 percent of state expenditures. When revenue from mineral sources begins to decline, part of the future role of the Permanent Fund may be to supplement the General Fund with earnings from fund investments or to help create a tax base to provide new state revenue sources.

Presently, the income earned by permanent fund investments can be channeled into any use the legislature designates. The House Committee on the Permanent Fund, therefore, must also recommend where and how to use the fund's earnings which, unlike use of the principal, need not produce income.

The governor anticipated voter approval of the permanent fund amendment. In August 1976 he temporarily expanded the membership and duties of the State Investment Advisory Committee, which is charged by statute to advise the commissioner of revenue on investment policy for the State. He directed the advisory committee to study and report on the estimated size, investment goals, management, organization, and public interest in the Permanent Fund.

The State Investment Advisory Committee conducted its deliberations with energy and diligence. Members conferred with consultants to produce draft legislation for a permanent fund structure. To arrive at its findings, the State Investment Advisory Committee examined consultants' reports on many of the resource-based monetary funds and development banks throughout the world.

In March 1977, two bills were introduced in the State House to begin debate on the structure of the Permanent Fund. Both bills would structure the Permanent Fund essentially as a development bank. Both measures propose a two-board management system, a policy board with overall policy-

making power, and a committee under the policy board to approve investment proposals. Both bills also give the president of the permanent fund corporation strong executive power and sole responsibility for presenting investment proposals to the investment committee. Both proposals require that at least 40 percent of the fund must be placed in high-grade securities, but allow up to 30 percent of the assets to be invested in Alaska development loans and another 30 percent in community projects and private dwellings. Except for the appointment of the policy board members (who are subject to legislative confirmation under only one of the bills), both proposals would allow the fund to operate rather independently from the executive and legislative branches.

In 1977 the legislature passed an interim permanent fund management bill that will stay in effect until specific investment objectives and management structure have been thoroughly examined and agreed upon. It directs the commissioner of revenue to invest permanent fund money into various "money-market instruments," such as U. S. Treasury notes, certificates of deposit, and high-grade securities (not stock), all of which are relatively liquid and secure. As of July 15, 1977 four million dollars had accrued to the Permanent Fund and had all been invested in a savings account in the Bank of America and in U. S. Treasury notes. Almost \$45,000 in interest has been earned in the first five months of its existence.

The House Special Committee on the Alaska Permanent Fund met on July 15 and 16, 1977 and heard testimony from a number of expert witnesses; two of whom presented papers on the establishment of the fund ("Economic Considerations in Establishment of Alaska's Permanent Fund" by Arlon Tussing, Institute of Social and Economic Research, University of Alaska and "Thinking About the Alaska Permanent Fund: A Cautious Approach for Alaskan Policymakers" by Belden Daniels, Department of City and Regional Planning, Harvard University). Copies of both papers are available from the Committee on request.

One of the major thrusts of Dr. Tussing's testimony was that there is no need or useful function for permanent fund investment in major industrial or commercial enterprise in Alaska, unless special reasons existed to subsidize them. Dr. Tussing's report infers that, at least initially, it makes more sense to invest the major portion of the fund outside the state.

Dr. Daniels emphasized that no development bank can create economic activity not already in existence; if there is no market or if costs are too high, "artificial" investment from the Permanent Fund will not help. Dr. Daniels suggested that the fund could provide needed commercial credit and financing of small- and medium-scale enterprises in Alaska but that fund managers should, in most cases, insist on market return for fund investments. A possible exception is economically feasible joint ventures with regional development corporations outside the major population centers. Daniels emphasized the importance of coordinated planning between the Permanent Fund and the General Fund.

During the 1977 legislative session, the Speaker of the House and the President of the Senate appointed special committees to consider alternative proposals for the Permanent Fund during the legislative interim. The committees will gather and distribute information, listen to public opinion, seek expert advice, consider how the fund should be administered, establish major goals for the fund, and present their recommendations to the full legislature in January 1978. The committees will make major efforts in the areas of public education and participation to learn what Alaskans want their permanent fund to be. This booklet marks the beginning of this phase.

Robert Lewellen



III The Fund in Relation to the Constitution and Other State Funds

Oil and minerals are a removable portion of Alaska's statehood entitlement to its citizens—past, present, and future. This nonrenewable wealth is now being extracted and transformed into another form of wealth—money. Dedication of that wealth to the Permanent Fund should provide an opportunity to make this wealth a renewable resource for many generations.

Although the form of the wealth is changing, the State still stands in the role of trustee, holding this resource wealth in trust for the benefit of the people of Alaska. Any objectives established for the Permanent Fund must be consistent with the same legislative obligations required for resource management. The legislature must decide into what income-producing assets permanent fund money should be placed. It is important to clearly define the obligations of the State before setting fund objectives.

The income earned from fund investments provides another source of wealth. Presently, a significant portion of state expenditures relies on oil revenues. The legislature has already stated that one objective of the fund is to diversify the state economy. As oil wealth declines, the Permanent Fund may bear the responsibility of supplementing the General Fund through income from fund investment, creation of an expanded tax base, or some combination of the two.

The Permanent Fund is one of several tools policy makers can use to achieve public objectives. Each year the legislature appropriates money from

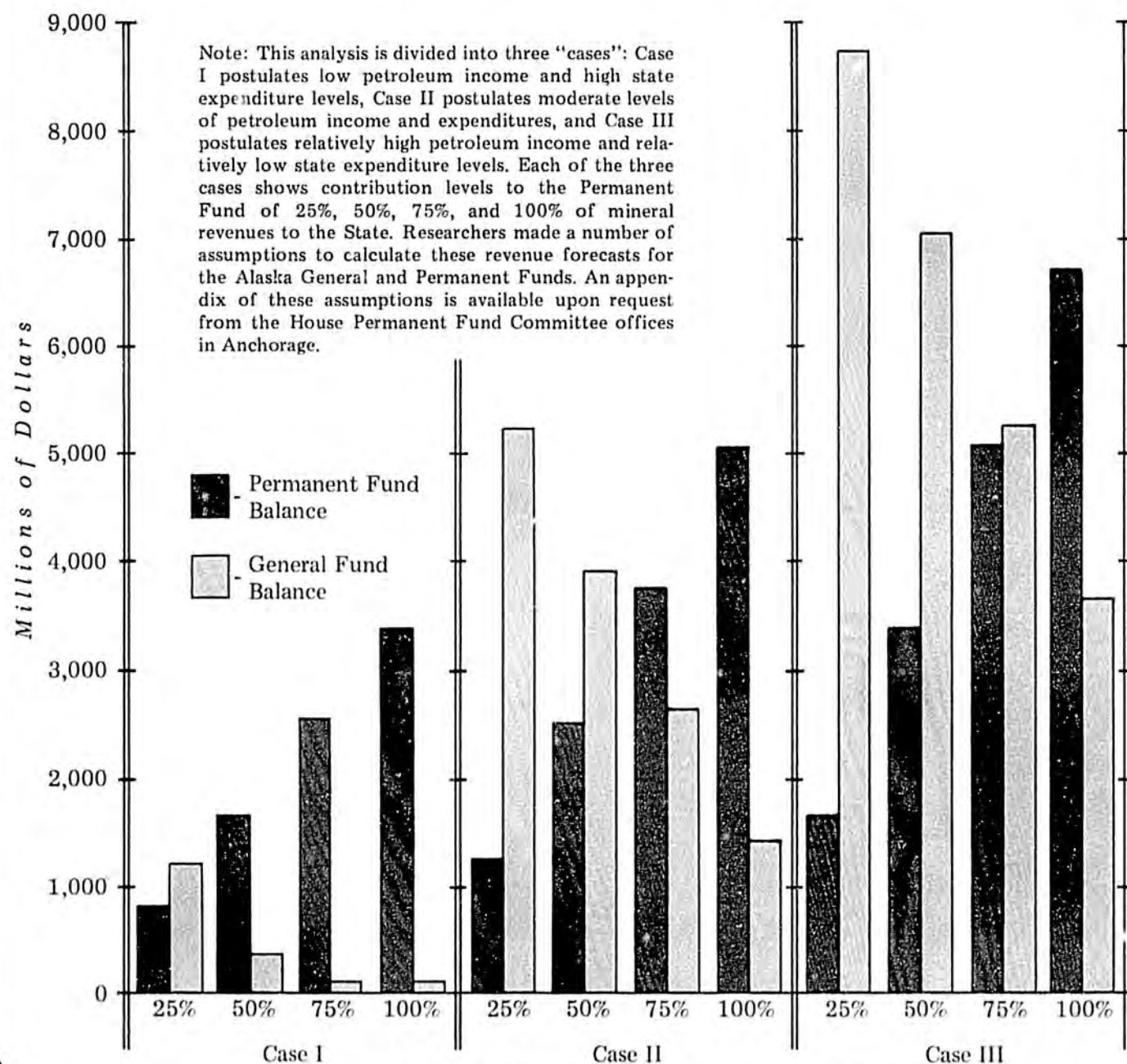
the General Fund to finance state activities. As required by the constitution, the General Fund is the sole repository (with the exceptions of the Alaska Permanent Fund and the Renewable Resources Development Fund) of all state revenues from all sources. The legislature is the only body empowered by the constitution to appropriate money from the General Fund.

The objectives of some of the general fund expenditures may be similar to those of certain investments of the Permanent Fund. For example, the State currently maintains loan programs to promote a variety of interests, ranging from business to home loans and senior citizen housing. Careful coordination with existing loan activities will help avoid duplication and conflict of programs.

The State also possesses extensive bonding powers and can pursue major projects by issuing general obligation or revenue bonds. Special purpose agencies, such as the Alaska Power Authority, can (with legislative approval) provide for the financing of specific facilities. The State additionally has mechanisms, such as the Municipal Bond Bank, to assist local governments borrowing money to achieve their objectives.

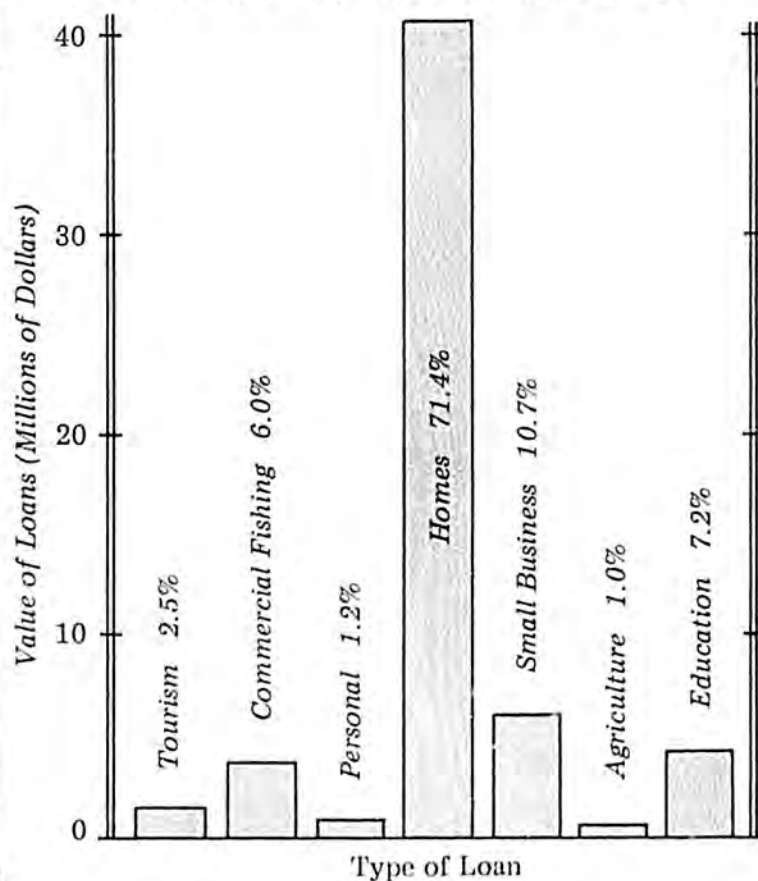
These various tools should be considered as we ponder alternative fund uses so that we can best match tools with objectives. Further, provisions for coordinating permanent fund and other government activities will be a crucial element in developing the enabling legislation.

Figure 1
Revenue Projections through 1985



Source: State of Alaska, Legislative Affairs Agency, Research Division, July 14, 1977.

Figure 2
Loan Fund Activity: Fiscal Year 1976



Source: State of Alaska, Office of the Governor,
Division of Budget and Management, October 11, 1976.

The following state loan programs and activities are potentially eligible for permanent fund investment (i.e., they are "income producing," although the rate of return will vary):

(1) The Scholarship Loan Program provides loans to Alaska residents for postsecondary vocational and academic training with a forgiveness incentive for remaining in Alaska after completing school.

(2) The Fisheries Enhancement Revolving Loan Fund supports loans to nonprofit organizations or individuals for the development of hatcheries.

(3) The Municipal Bond Bank Authority is an independent public corporation to help Alaska communities develop needed public facilities by marketing general obligation bonds. The bond bank will purchase these bonds, offering its own revenue bonds to the public bond market.

(4) The Division of Business Loans administers five revolving loan funds and two public corporations—the Small Business Revolving Loan

Fund, the Tourism Revolving Loan Fund, the Commercial Fishing Revolving Loan Fund, the Child Care Facilities Revolving Loan Fund, the Water Resources Revolving Loan Fund, the Alaska State Development Corporation, and the Small Business Development Corporation. These five loan funds enable qualified businesses and public utilities to obtain long-term financing for developing, expanding, or modernizing their operations.

(5) The Veterans Affairs Revolving Loan Fund makes loans to qualified Alaska national guardsmen and veterans in Alaska. These loans may be used to purchase, refinance, build and remodel homes, farms, businesses, and multiple dwellings. In addition, a qualified veteran may receive a loan for education, fishing, mining, or personal use.

(6) The Agricultural Revolving Loan Fund provides long-term, low-interest loans to promote rapid development of agriculture as an industry throughout the state.

(7) The Senior Citizen Housing Development Program provides loans and grants to municipalities, housing authorities, and other nonprofit local sponsors to stimulate new housing construction and for rehabilitation of existing units for senior citizens.

(8) The Alaska State Housing Authority (ASHA) and the Alaska Housing Finance Corporation (AHFC) are operated by the State for public and low-cost housing programs and state-supported financing for low- and moderate-cost private sector housing development. Currently, ASHA receives almost all of its funding from the U. S. Department of Housing and Urban Development and manages housing units throughout the state. AHFC makes or buys mortgages on low- or moderate-income housing, insures mortgages, and makes home improvement loans and loans for other associated costs of home ownership, including down payments, to qualified persons or developers. In addition, the State has established 13 regional Native housing authorities with powers essentially similar to those of ASHA. The federal government provides virtually all of the funds for these activities, so State participation is minimal and limited to insured short-term loans.

(9) The Alaska Power Authority is designed to promote the development of hydroelectric and fossil fuel power sources for domestic Alaska usage. The authority is generally empowered to issue bonds and notes to finance power development activities in the State, with the debt being secured by the projects themselves or by the earnings of these projects. This program is still in the formative stages and has yet to issue bonds.

IV Objectives for Permanent Fund Investment

The people of Alaska should establish the overall objectives for their permanent fund. The committee hopes to achieve this through public meetings and other public participation and information programs to be held throughout the state in the coming months and through direct solicitation, such as the attached questionnaire. We need to know your priorities to write permanent fund enabling legislation.

The proposals listed below have emerged from the Alaska Public Forum, the State Invest-

ment Advisory Committee, survey research, and concerned individuals. The list is not exhaustive, nor are the proposals or objectives mutually exclusive. Remember that the types of investments made will determine the amount of income the fund earns.

Before you evaluate these proposals, consider the following: Many of the proposals for in-state investment may involve an interest or risk subsidy; that is, the money is loaned at lower interest or in greater quantities than borrowers can

Figure 3
Possible Objectives and Implications for Investment Proposals

Investment Proposal	Possible Objectives	Possible Implications
Loans or loan guarantees subsidizing various in-state basic industries with emphasis on renewable resources.	-Diversify the Alaska economy. -Employ Alaska residents. -Enhance a stable economy. -Prepare for oil production downturn. -Create future economic tax base.	-Greater government intervention in the Alaska economy. -Lower return, higher risk. -Possible stimulus for immigration. -High potential for government inability to achieve objectives. -Environmental degradation. -Government growth through increased demand for facilities and services. -Less equal distribution of benefits.
Investment in high-yield, low-risk securities either inside or outside the state.	-Provide earnings higher than available from subsidized loans. -Maintain flexibility and security of the fund during economic fluctuations.	-State economic development will follow normal national and international trends. -Less economic diversification. -Less economic activity.
Loans to or loan guarantees for small business and for purchase of homes.	-Encourage small business and home ownership. -Expand availability of consumer loans to distribute benefits of resource wealth. -Stimulate the economy.	-Fund used more for consumption, less for investment. -More equal distribution of benefits. -Lower earnings than highest possible.

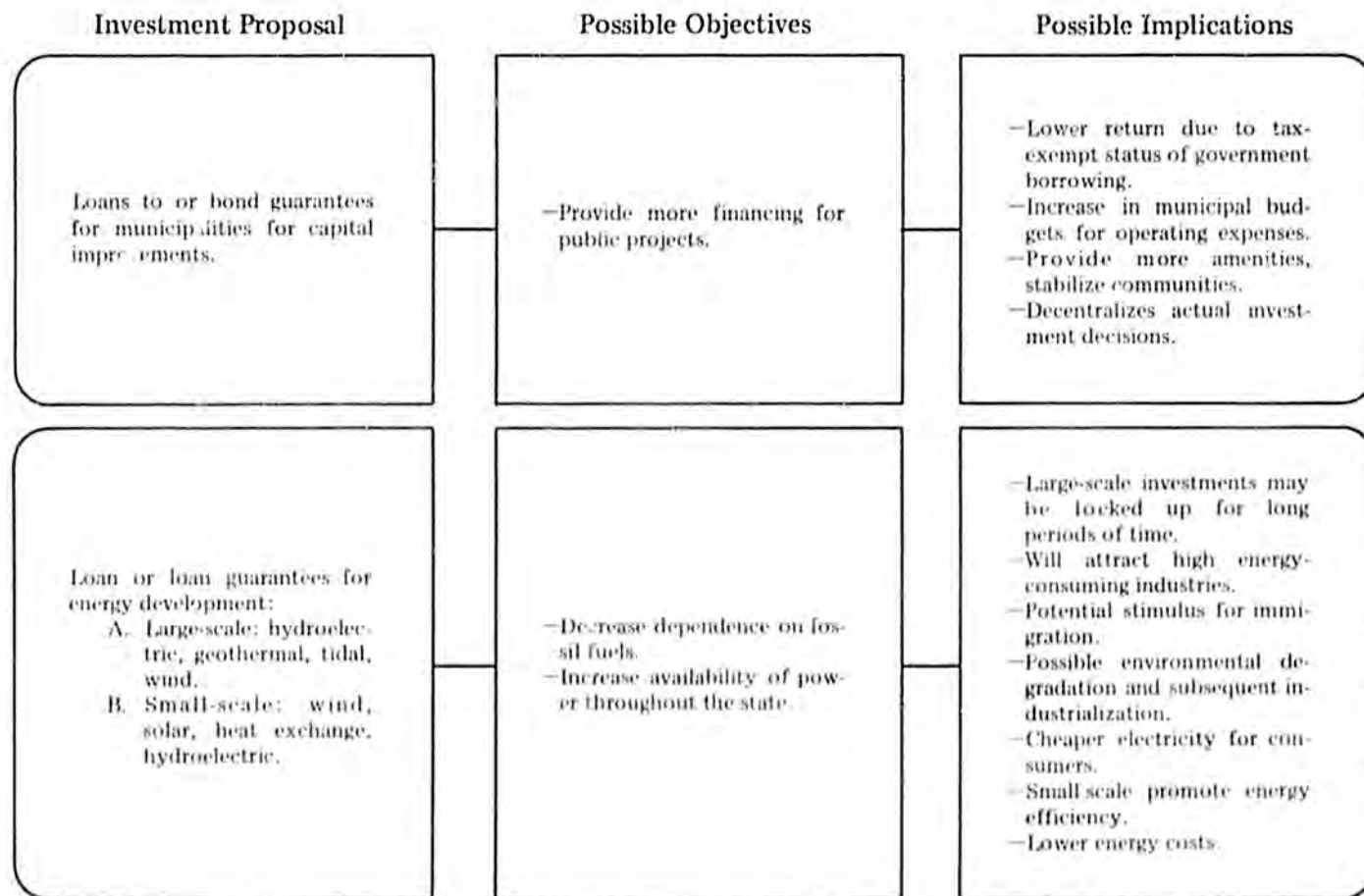
obtain from private lenders. The fund would earn a lower return than the market rate unless the General Fund makes up the difference (which has been proposed).

Subsidies may only make sense if the loan or guarantee launches an in-state enterprise that not only repays the loan but also creates new individual tax sources to cover the original subsidy as well as the cost of additional state and local government services and environmental and social costs generated. If no in-state opportunities exist, the Permanent Fund cannot create them. All investments must be thoroughly evaluated to separate the winners from the losers.

Another point to ponder is that objectives may often conflict. Although different strategies

may be used to pursue the same objectives, each proposal lends itself to the achievement of some objectives more than others and even some to the exclusion of others. For example, a strategy which seeks to distribute fund benefits directly to individuals, such as consumer loans, will provide public facilities, such as through loans to municipalities. Likewise, strategies which seek to guide the State's economy through economic diversification, for example, probably will not maximize investment income.

Trade-offs are inevitable. As you identify the proposals that might best achieve your objectives, think about the likely trade-offs involved. Figure 3 shows sample investment proposals, their objectives, and a brief outline of the implications.



V Use of Fund Income

The income derived from investment of the Permanent Fund can be used for any purpose designated by the legislature. Before we present some of the most-often discussed proposals for use of the earnings from the Permanent Fund, we invite you to invent your own and include it as part of your response to this booklet.

The people who attended Alaska Public Forum meetings throughout the state last year and those who mailed in forum questionnaires expressed three main preferences for use of permanent fund income:

- (1) Reduce taxes for Alaska residents.
- (2) Loan it to Alaskans for renewable resource development.
- (3) Return it to the Permanent Fund for reinvestment.

The governor has proposed that a portion of the income be distributed directly to Alaska residents. This plan, which he calls "Alaska, Inc.," would issue "shares" to each Alaskan based on residency. Each shareholder would receive a percentage of the fund income as a dividend, a process which the governor feels would draw public attention to the operation and effectiveness of permanent fund investments.

Each of these options for use of the fund income involves trade-offs, as discussed in the previous section on objectives for investment of the principal, and you should consider them as you decide how you would like the income used. Since the investment policy of the fund will determine the amount of earnings and the potential impact permanent fund investment will have on the Alaska economy, the committee feels that the use-of-income question should not overshadow thorough analysis of permanent fund investment goals.



Yvonne Mazzei

VI Objectives for Control and Management of the Permanent Fund

A common concern of many Alaskans after realizing the potential dollar magnitude of their Permanent Fund is who will control this wealth. The only other fund of similar or larger size in state government is the General Fund. As discussed earlier, the constitution requires that all appropriations from the General Fund be made by the legislature and be subject to gubernatorial veto. After appropriation by the legislature, some agency of the executive branch usually administers general fund money.

The state constitution requires that the legislature determine what kind of investments are eligible for permanent fund money. However, the day-to-day management of the money may be delegated to an agency in the executive branch (as it is presently) or to an organization or organizations outside the legislative and executive branches.

The two critical management questions are: How much control over policy should be delegated by the legislature to another agency or agencies? To what extent will the managers in those agencies be accountable to the people of Alaska, either directly or through their elected officials?

If the legislature simply directs the managing agency to diversify the Alaska economy by making sound investments in Alaska's renewable and nonrenewable resources (one of the investment guidelines in H.B. 298), a great deal of discretion is left to the managing agency as to what is a sound investment, what resources to invest in, and which individuals or corporations will receive financing. For example, fund managers may decide to invest in a multimillion-dollar hydroelectric project, or they could use the same money for home loans to individual Alaskans.

Permanent fund managers must be account-

able to elected officials and the public, but at the same time, they should not be vulnerable to political and special interest pressures in the loan-making process. "Politics" will not necessarily be kept out of loan decisions by placing experts on a board which is not accountable to the executive or the legislature. Clear, widespread notice to the public about the types of loans that qualify, how loans are applied for and granted, disclosure requirements for decision makers, publishing lists of loans or guarantees made, and regular auditing by the executive and legislative branches of government might provide at least a partial remedy to the control and accountability problems.

Current proposals call for appointment of managers by the governor (one adds confirmation by the legislature) with removal only for cause. The State Investment Advisory Committee discussed the possibility of elected members, but a brief look at Alaska's highly centralized government (with only the governor, legislators, and lieutenant governor being elected) indicates why this probably would not have been consistent with the state constitution.

An alternative to the highly centralized and rather independent management structure proposed in H.B. 298 would be for the legislature to provide for the administration of the Permanent Fund under the existing constitutional power of appropriation. The legislature, with approval of the governor, would designate eligible investments by law. The legislature annually would pass an investment bill for the Permanent Fund, much like the budget bill for the General Fund. The permanent fund investment bill would apportion available permanent fund money among the eligible investments.

Funds deposited in the Permanent Fund would temporarily be invested in liquid and secure money-market instruments pending each year's investment bill, as is now being done with permanent fund receipts. The legislature might choose to create new types of financial intermediaries and designate them as eligible for loans or loan guarantees in order to meet Alaska's changing capital needs. For example, the development bank corporation proposed in H.B. 298 could be one of the new financial intermediaries designated as an appropriate recipient of fund money. At the very least, legislative authorization could be required before loans exceeded a specific dollar amount.

The organization of the fund may profoundly affect how the fund performs, but the organization should reflect—not determine—the goals of the fund. Goals established today may not be those held by tomorrow's Alaskans. There must be built into any permanent fund structure both ability to protect the principal of the fund and responsiveness to meet changing goals.

National Park Service



VII Permanent Fund Questionnaire

The Permanent Fund belongs to you. What are your suggestions for use of the money? Would you please

Place
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Special Committee on the Alaska Permanent Fund
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Anchorage, Alaska, 99501

VII Permanent Fund Questionnaire

The Permanent Fund belongs to you. What are your suggestions for use of the money? Would you please take the time to share your ideas with us by indicating your preferences for permanent fund investment proposals. For each proposal, please answer the following questions. Feel free to suggest as many proposals as you think we should consider.

1. What investment proposal do you suggest and how is it income-producing for the Permanent Fund?
[Example — invest in blue chip, preferred stocks]

2. What objectives are achieved by your proposal?

3. What objectives are avoided by this proposal? [Example — no diversification of Alaska economy, does not affect unemployment, does not affect consumer loans]

4. What may limit the effectiveness of this proposal?

5. Which groups would benefit from this proposal? [Example — financiers, brokers]

6. What groups are likely to oppose this proposal?

7. What are your suggestions for management of the Permanent Fund?

A Proposal for the Alaska Permanent Fund

Final Report by the House Special Committee on the Alaska Permanent Fund



Rep. Clark Gruening, Chairman
Rep. Terry Gardner, Vice Chairman
Rep. Ernie Haugen
Rep. Russ Meekins

Rep. Bill Miles
Rep. Leo Schaeffer
Rep. Rick Urion

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I Introduction

In November 1976 Alaskan voters overwhelmingly approved an amendment to Section 15, Article IX of the state constitution creating the Alaska Permanent Fund.

The amendment reads:

"At least twenty-five per cent of all mineral lease rentals, royalties, royalty sale proceeds federal mineral revenue sharing payments and bonuses received by the State of Alaska shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law."

The amendment defines the permanent fund in broad terms. It leaves to the legislature and the governor the task of refining the fund: what it is, what it does and how it works.

These refinements will be contained in the permanent fund enabling legislation passed by the House and Senate and approved by the governor.

The House Special Committee on the Permanent Fund was created during the past legislative session to consider proposed permanent fund enabling legislation and to propose its own enabling legislation. The committee has been working during the interim to determine what Alaskans see as the permanent fund's goals and how to best achieve those goals.

(For a more complete history of the Alaska Permanent Fund, see the committee's preliminary report, *The Role of the Permanent Fund in Alaska's Future*.)

When the second session of the Tenth Legislature convenes (in January 1978), the committee intends to hold public hearings on its proposed permanent fund enabling legislation.

This report is intended to review what the committee has done and what its proposed enabling legislation will do about the Alaska Permanent Fund.

II What the public said

In an attempt to determine what Alaskans thought about the permanent fund, the committee engaged in a wide-ranging program of public participation. This program included the mailing of the committee's preliminary report, which contained a questionnaire to be filled out and returned; a symposium on goals of the permanent fund in Anchorage, cosponsored by the National Endowment for the Humanities and the Alaska Humanities Forum; public hearings in Anchorage, Fairbanks, Kotzebue and Juneau; and participation with the Alaska Public Forum in its questions on the permanent fund.

The committee received various proposals for use of permanent fund money. Everything from preserving artifacts to tracking whales was suggested. But several general points emerged from the public participation process.

First, the permanent fund was created as a depository for mineral revenues in excess of current state needs.

Second, the mineral revenues put into the permanent fund (the principal) should stay there and not be dissipated by using it to pay for the operations of state government or by investing it unwisely.

Third, where there are sound investments in Alaska the permanent fund should make them

without duplicating financial services already available.

Fourth, money earned by permanent fund investments (the earnings) should be used for the identifiable benefit of current and future Alaskans.

Fifth, the management of the permanent fund should be insulated from politics but should be accountable to the public.

Sixth, the management of the permanent fund should not make decisions properly made through the political process.

These general points guided the committee as it worked on its proposal for permanent fund enabling legislation.

In addition, the public made two main points on how it wanted state government to assist it in shaping the future Alaska.

First, state government should provide sufficient funds and programs for the proper development of renewable resources.

Second, state government should provide sufficient funds and programs for the development of alternate energy.

Again, these two main points guided the committee as it worked on its proposal for permanent fund enabling legislation.

III What the consultants said

In conjunction with its public participation program, the committee hired consultants and lured advisors to assist it.

The consultants were Dr. Belden Daniels of Harvard University's Department of City and Regional Planning; Dr. Arlon Tussing, Dr. Scott Goldsmith and Lee Gorsuch of the University of Alaska's Institute for Social and Economic Research; the financial consulting firm of White, Weld and Company; the financial management consulting firm of Price Waterhouse and Company.

The advisors were Dr. Donald Gordon of Simon Fraser University; Dr. Barbara Bergman of the University of Maryland; Robert Blixt, executive secretary of the Minnesota State Board of Investment; Terry Magrath of Fidelity Management; and representatives of Manufacturers Hanover Trust.

Additional assistance and advice were gathered from state offices and agencies, particularly the Legislative Affairs Agency. The committee also drew heavily upon previous work done by the State Investment Advisory Committee.

In order to keep this report as concise as possible, no detailed explanation of the advice of every consultant and advisor is offered here.

Rather, a brief summary of the main points of consensus illustrates the principles that guided the committee.

First, the permanent fund is not necessarily a vehicle for financing major commercial or industrial enterprises in Alaska. Such enterprises, if sound, will receive financing from existing sources. If they are not sound then they are not proper investments for the permanent fund. In some cases it may benefit the state to offer guarantees for the financing of projects, but such policy decisions properly are made through the political process.

Second, the permanent fund cannot create sound enterprises. If other factors are adverse (lack of market, product cost) permanent fund investment will not help.

Third, financially sound small and medium scale enterprises, particularly in rural areas of Alaska, might be proper permanent fund investments because they may not be receiving money from existing sources due to institutional barriers (lack of knowledge, distance).

Fourth, permanent fund managers ought to be allowed maximum latitude for making specific investments consistent with policy direction.

Fifth, permanent fund managers ought to be accountable to the public through the legislature and governor and through public reporting requirements.

IV What the committee did

While gathering public opinion and professional advice, the committee began working on its proposal for permanent fund enabling legislation. This work focused on five main questions.

First, how much money should be put into the permanent fund?

Second, what should be the fund's financial goals?

Third, how should the fund be managed?

Fourth, how should fund managers be made accountable to the public?

Fifth, what should be done with the earnings of the fund?

V How much money should be put into the permanent fund?

The constitutional amendment requires that at least 25 per cent of the specified revenues be put into the permanent fund. This means, obviously, that more money could be put into the fund. But, in all probability, at least a portion of the specified will be needed to finance state government.

In the foreseeable future the vast majority of permanent fund dollars will come from the fund's share of the state's 12½ per cent royalty share of Prudhoe Bay oil. While the committee was working, projections of revenue from this source turned downward.

This downturn was caused primarily by two events.

First, the explosion at Pump Station 8 limited the amount of oil flowing through the trans-Alaska pipeline. This, in turn, limited the amount of oil the state received as its royalty share. It is estimated that Pump Station 8 will be repaired by March 1978. But until it is repaired the state's royalty share will be roughly half of what had been anticipated.

Second, the rejection of the Interstate Commerce Commission's interim pipeline tariff put into effect substantially higher tariffs requested by the trans-Alaska pipeline's owners.

The tariff is the fee charged by pipeline owners to transport oil through the pipeline. The higher the tariff, the lower the profit per barrel of oil for the owner of the oil. With the exception of the State of Alaska, the owners of Prudhoe Bay oil also are the owners of the trans-Alaska pipeline. So, the interim tariff rejection means that the state must pay an additional \$1.35 per barrel, on the average, to transport its oil through the pipeline. The result: the state loses an average of \$1.35 per barrel profit on its royalty share of Prudhoe Bay oil.

Higher tanker charges and unanticipated field treatment charges also may reduce the state's profit on its royalty oil.

This downturn of revenue from Prudhoe Bay has had a similar effect on the state's general fund, creating a deficit in anticipated revenue for the current fiscal year of between \$50 million and \$100 million as of this writing.

Adjustments in the state's oil taxation policy could help offset this general fund revenue deficit. But such adjustments would not make more money available to the permanent fund since tax revenues cannot go into the permanent fund.

The other factor affecting the amount of money available for the permanent fund is the level of state spending. Money spent on state government projects and programs cannot go into the permanent fund.

This has led some to suggest that 100 per cent of the specified revenues be put into the permanent fund so that none of the specified revenues can be used to finance state government. But such an approach, revenue/expenditure projections show, would soon leave insufficient revenue to finance state government even if there was no real growth (that is, more dollars spent per person after inflation effects are subtracted) in the state budget. (See chart 1)

Such a situation, called deficit spending, is prohibited by the state constitution.

Projections, it is important to remember, carry no guarantee. Changes may occur (tariffs may be lowered once again, new sources of revenue may be found) that the projections do not take into account. They are planning tools and are not intended as outright projections of the future.

The committee took these projections into account as it worked on its proposed permanent fund enabling legislation.

It is important to note that, in addition to whatever money is put into the permanent fund, there are previous constraints on state revenue. These include a 5 per cent dedication to the Renewable Resources Development Fund, payments to the Alaska Native Fund and fixed assets in various state loan funds.

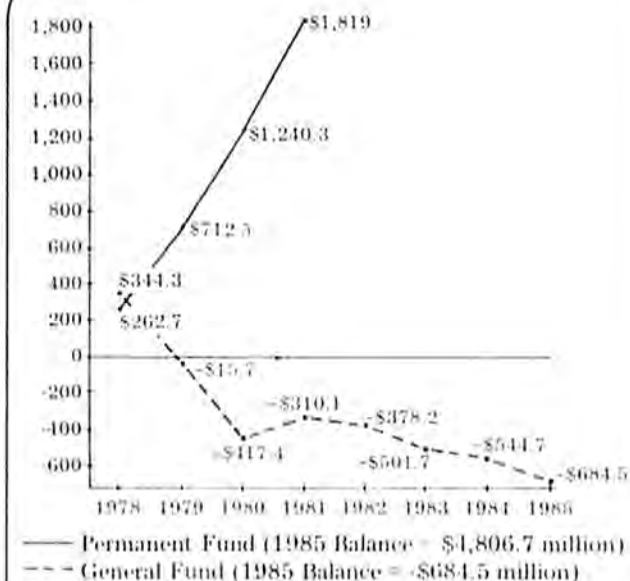
The committee's proposal puts 30 per cent of the specified revenues, with the exception of bonuses, into the permanent fund. The latest revenue/expenditure projections show that this would put the permanent fund's value by 1985 between a low of \$903.3 million and a high of \$1.5 billion. These figures do not include any earnings from the permanent fund that might be returned to the permanent fund. (See charts 2, 3 and 4)

The committee's proposal puts 100 per cent of bonuses (minus 5 per cent for the Renewable Resources Development Fund and 2 per cent, until it is paid off, for the Alaska Native Fund) into the

permanent fund. The committee decided that no bonus money should go into the general fund because such a policy could lead to the premature sale of leases simply to balance the state budget.

The committee is continuing to study its formula budgeting concept, although it is not contained in the committee's proposal. Generally, this concept requires the establishment of a formula, based on the previous year's budget, for setting budget growth. Once the revenue required by the formula was provided, all other revenue would flow to the permanent fund. The formula, of course, could not allow the permanent fund contribution rate to fall below the 25 per cent required by the amendment.

Chart 1
100% Contribution



Note:

The underlying assumptions are: the rate of interest on permanent and general fund investments is 7%; the percentage of current year expenditures in the general fund cash balance is 20%; 100% of royalties, leases, and bonuses are deposited in the permanent fund; the annual increase in the budget is 15%; 50% of the permanent fund earnings go to Alaska, Inc. payments or for other uses outside permanent or general funds.

Source: Division of Legislative Finance

Chart 2
30% Contribution

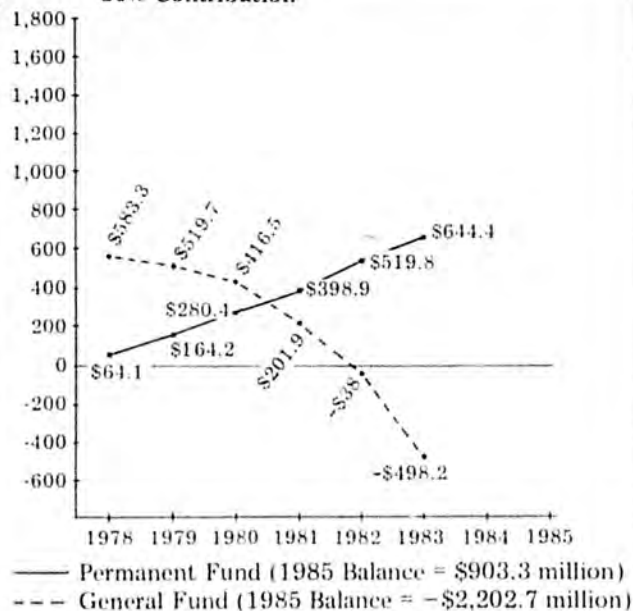
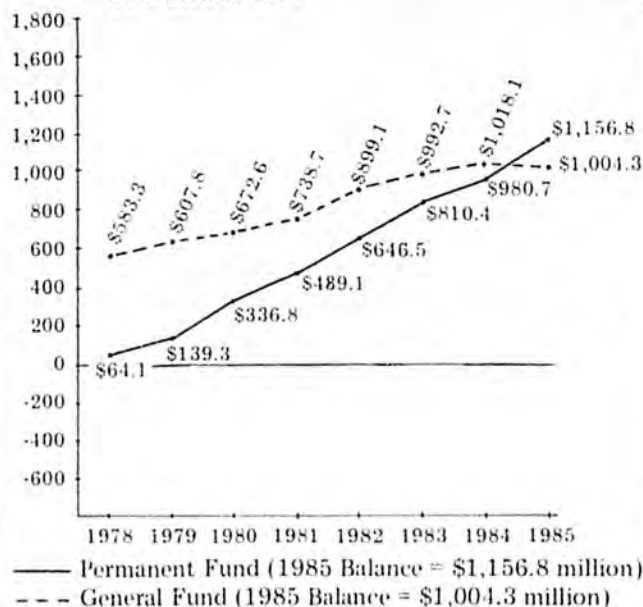


Chart 3
30% Contribution



Note:

In all cases permanent fund earnings are assumed to return to the general fund. Other underlying assumptions are:

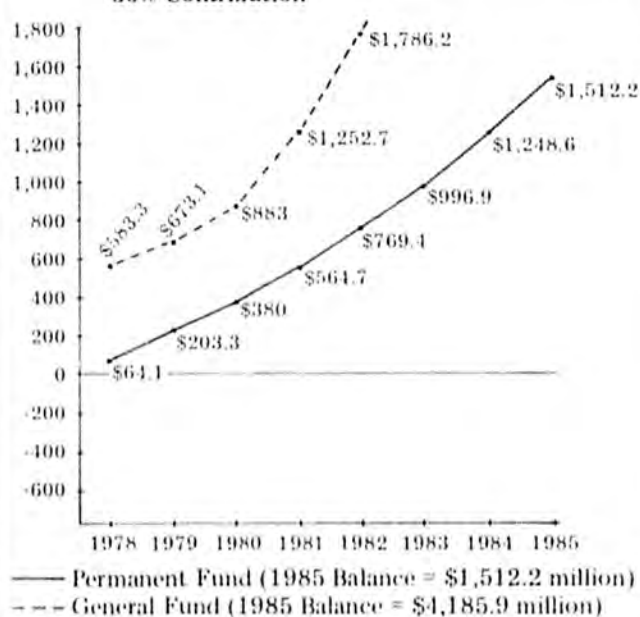
In Chart 2, wellhead values increase 2.5% annually; expenditures increase 15% annually; tariffs are about \$6.25 per barrel; the State loses the dispute over deduction of treatment costs for royalty calculations; the state severance tax "floor" remains at 80¢ per barrel (equivalent to a wellhead value of about \$6.53 per barrel).

In Chart 3, the State is successful in its suit to halt deduction of field treatment costs for royalty calculations and that the tariff dispute is resolved by "splitting the difference" between the interim tariff of \$4.90 per barrel and the company tariff of \$6.25 per barrel. With those additions to wellhead value, 1979 and subsequent years' oil prices increase 3.75% annually; the state severance tax "floor" remains at 80¢ per barrel; and state expenditures increase 10% annually.

In Chart 4, the State prevails in both the treatment cost and tariff dispute, adding about \$1.97 per barrel over current value; oil prices rise 5% annually; expenditures increase 7.5% annually; the severance tax "floor" remains at 80¢ per barrel.

Source: Division of Legislative Research.

Chart 4
30% Contribution



VI What should be the financial goals of the fund?

The financial goals, generally, are dictated by the constitutional amendment. On questions where the amendment is mute, the committee looked to expressed public opinion and professional advice for its answers. Based on this, the committee made three basic decisions on the fund's financial goals and embodied them in its proposal.

First, the main goal of the permanent fund is permanence; that is, the fund's primary purpose is to preserve the money put into it. This dictates that investment risk be minimized, that permanent fund investments be as secure as possible.

Second, fund investments must produce income. This rules out investments in projects and programs that will not return income directly to

the fund. Without dictating a specific level of return, the committee decided that permanent fund investments must meet market rates and terms to insure, insofar as possible, their security and ability to produce income.

Third, a portion of the permanent fund should be used for the benefit of current Alaskans, as long as that use is secure and income producing.

In making these decisions the committee realized that it was ruling out many types of investments, including highly speculative and subsidized investments. It also realized, however, that the permanent fund is only one of several financing vehicles available to the state and that it was unnecessary, as well as unwise, to try to design a permanent fund to do all things.

VII How should the fund be managed?

Based on its decision on the fund's financial goals the committee, with the assistance of its consultants and advisors, created two corporations.

The first, called the Alaska Permanent Fund Corporation (APFC), is essentially a trust fund. It receives five-sixths of the permanent fund revenue until the second corporation is paid its \$100 million; then it receives all the permanent fund revenue.

The Alaska Permanent Fund Corporation is an independent, non-taxable public corporation managed by a three-member board of trustees.

The APFC board's members are appointed by the governor and confirmed by the legislature for four-year terms. They receive no salary and serve on a part-time basis. The trustees are empowered to manage and invest the corporation's assets within the constraints of the committee's proposal.

These powers include hiring an executive director and approving staff, as well as contracting with private firms.

The constraints on the trustee are as follows: They must manage the corporation's assets prudently and maintain a reasonable diversification of investments. They may not borrow money or provide loan guarantees. Their investments must be income producing and are limited to U.S. government guaranteed bonds, first mortgages and corporate stocks and bonds. No more than 30 per cent of the corporation's assets may be invested in stocks. The trustees are subject to public reporting requirements and external audit.

The second corporation, called the Alaska Enterprise Investment Corporation (AEIC), is essentially a development bank. It receives one-sixth of the revenue dedicated to the permanent fund up to \$100 million. When that amount has been paid into the AEIC that one sixth reverts to the Alaska Permanent Fund Corporation.

The Alaska Enterprise Investment Corporation is an independent, non-taxable public corporation managed by a seven member policy board. One member of the policy board is appointed by the governor from the executive branch. The other six are appointed by the governor and confirmed by the legislature from the general public. The public members are unsalaried, part-time and serve four-year terms.

The policy board members are empowered to appoint an executive director and members of the investment committee, set policy for the AEIC within statutory constraints and monitor the corporation's plans and performance.

The executive director is empowered to hire and fire staff and serve as a member of the investment committee. He is responsible to the policy board for the corporation's performance.

The other four members of the investment committee also are appointed by the policy board. They are full-time, salaried and serve four-year terms. The investment committee is solely responsible for approving all investment proposals.

The corporation is designed to provide financial assistance to financially sound small and medium scale productive private enterprises and community development projects. In doing so it may borrow up to \$100 million, provide financial guarantees and loans, and purchase up to a 25 per cent ownership in an enterprise or project. Up to 50 per cent of its financial resources may be used to finance private enterprises; the other 50 per cent may be used for community development projects.

All corporation investments must be made according to market rates and terms. The corporation may not give financial assistance of more than \$2.5 million to any enterprise or project without legislative approval. The corporation may not use its money to replace private capital.

The corporation is subject to public reporting requirements and external audit.

Thus the House committee's proposal sets aside most of the permanent fund as a trust to preserve its principal and produce earnings from secure investments. The balance of permanent fund revenues, up to \$100 million, are designated for a development bank designed to find and fill capital gaps in Alaska on an income-producing basis. Both corporations are insulated from politics in their day-to-day operations but subject to policy decisions made by the public through the political process.

The committee's proposal, in short, is designed to provide both financial security and reasonable financial assistance to current and future Alaskans.

VIII How should the fund managers be made accountable to the public?

Since the permanent fund is public money, the committee realized the need for those who managed it to be accountable to the public for their actions. So the committee's proposed permanent fund enabling legislation includes several provisions designed to insure that accountability.

First, members of the APEC board of trustees and the AEIC policy board are appointed by the governor and confirmed by the legislature. This insures that the public's elected representatives must be sure that members of the boards are qualified.

Second, the proposal requires that both corporations report directly to the public in plain English what they have done and why during each year.

Third, all board members and employees of both corporations are subject to the state's conflict of interest law.

Fourth, both corporations are constrained in several ways by the provisions of the committee's proposal.

Fifth, the committee's proposal creates an Investment Oversight Committee (IOC) of the legislature, designed to monitor the activities of both corporations and all other agencies of the state which perform lending, borrowing or investment functions (this would include the Renewable Resources Development Fund, the existing state loan programs and the Department of Revenue).

The IOC is composed of eight members: the President of the Senate, the Speaker of the House and three members appointed from each house. At least one member from each house shall be a minority member.

In addition to its monitoring responsibilities, the IOC must report to the legislature its recommendations regarding the confirmation of suggested appointees.

IX What should be done with the earnings of the fund?

The permanent fund will produce earnings from both corporations. The committee found during its public participation process that demands on these earnings are infinite. Revenue/expenditure projections indicate that the permanent fund will not produce sufficient earnings to provide money for all the suggested projects and programs. (Under the most optimistic projections, at a highly optimistic rate of return of 10 per cent, the permanent fund will return \$150 million in 1985. This is between one-fifth and one-sixth of the current fiscal year's budget.)

The committee has chosen to introduce a separate piece of legislation providing for the use of the permanent fund's earnings. Based on the public's demand for funds for energy, the committee's proposal is to use permanent fund earnings as a guarantee for bonds issued by governmental agencies for power projects.

Guarantees are a commitment to pay any default on interest or principal payments on

bonds. Once the government agency issuing the bonds makes these payments, the portion of permanent fund earnings used as the guarantee would be freed and flow to the permanent fund or general fund.

The committee's recommendation is that the earnings be returned to the permanent fund. Unless this or some other recommendation is approved, the earnings, under the constitutional amendment, will go to the general fund.

This proposal, according to financial advisors, would draw more private money at lower rates to Alaska for power projects. It would not expose the fund's earnings to excessive risk of loss due to default.

The committee's use of earnings proposal is an attempt to assist Alaskans in the creation of power projects. It also is a discussion proposal, designed to spark further debate in the legislature and throughout the state on what Alaskans want permanent fund earnings to accomplish.

X The Renewable Resources Development Fund

In addition to its duty to review and propose permanent fund enabling legislation, the committee is responsible for providing for enactment of the Renewable Resources Development Fund (RRDF).

The RRDF, passed by the legislature in 1974, receives not less than 5 per cent of the receipts from bonuses, rentals and royalties for the rehabilitation, enhancement and development of renewable resource programs.

The committee formed a subcommittee to examine the RRDF. The subcommittee's work over the interim culminated in a work draft which will be taken up once again by the committee when the Tenth Alaska Legislature convenes.

The work draft sets up a corporation, called the Alaska Renewable Resources Corporation (ARRC). The corporation is an independent, non-taxable public corporation managed by a three-member board of trustees. Trustees are appointed by the governor and confirmed by the legislature for four-year terms. They are full-time and

salaried. Trustees are empowered to employ an executive director and staff. They also are empowered to render financial assistance within the constraints set in the work draft.

The corporation is designed to give grants, loans, loan guarantees and other financial assistance to projects and programs that identify and demonstrate new products, markets and technologies in renewable resources.

The corporation is subject to the same conflict of interest and reporting requirements as the permanent fund corporations.

The corporation's purpose is to provide financial and technical assistance to projects and programs that are of higher risk than is acceptable to private financial markets. It is the "leading edge" of the state's efforts to develop viable, stable renewable resource businesses and to provide financing for commercial, traditional and common uses of the state's renewable resources.

XI Summary

The House Special Committee on the Permanent Fund's efforts will result in three bills as described previously. One will establish the Alaska Permanent Fund Corporation, the Alaska Enterprise Investment Corporation and the Investment Oversight Committee. The second will provide for the use of the permanent fund's earnings. The third will establish the Alaska Renewable Resources Corporation. As yet undecided is a fourth bill on formula budgeting.

The committee's package aims at four goals: First, to be consistent with the constitutional amendment and statute creating the RRDF.

Second, to be responsive to public desires and consultant advice.

Third, to insure that the public will remain informed about the activities of its permanent fund and RRDF managers.

Fourth, to fit the permanent fund and RRDF into the existing public financing structure.

In accomplishing this last goal, the committee's proposals seek to avoid both unnecessary risk to the permanent fund and duplication of existing financial services.

In looking at the structure of public finance with the committee's proposals included (Chart 5), it is convenient to divide it into three risk categories; high risk, medium risk and low risk.

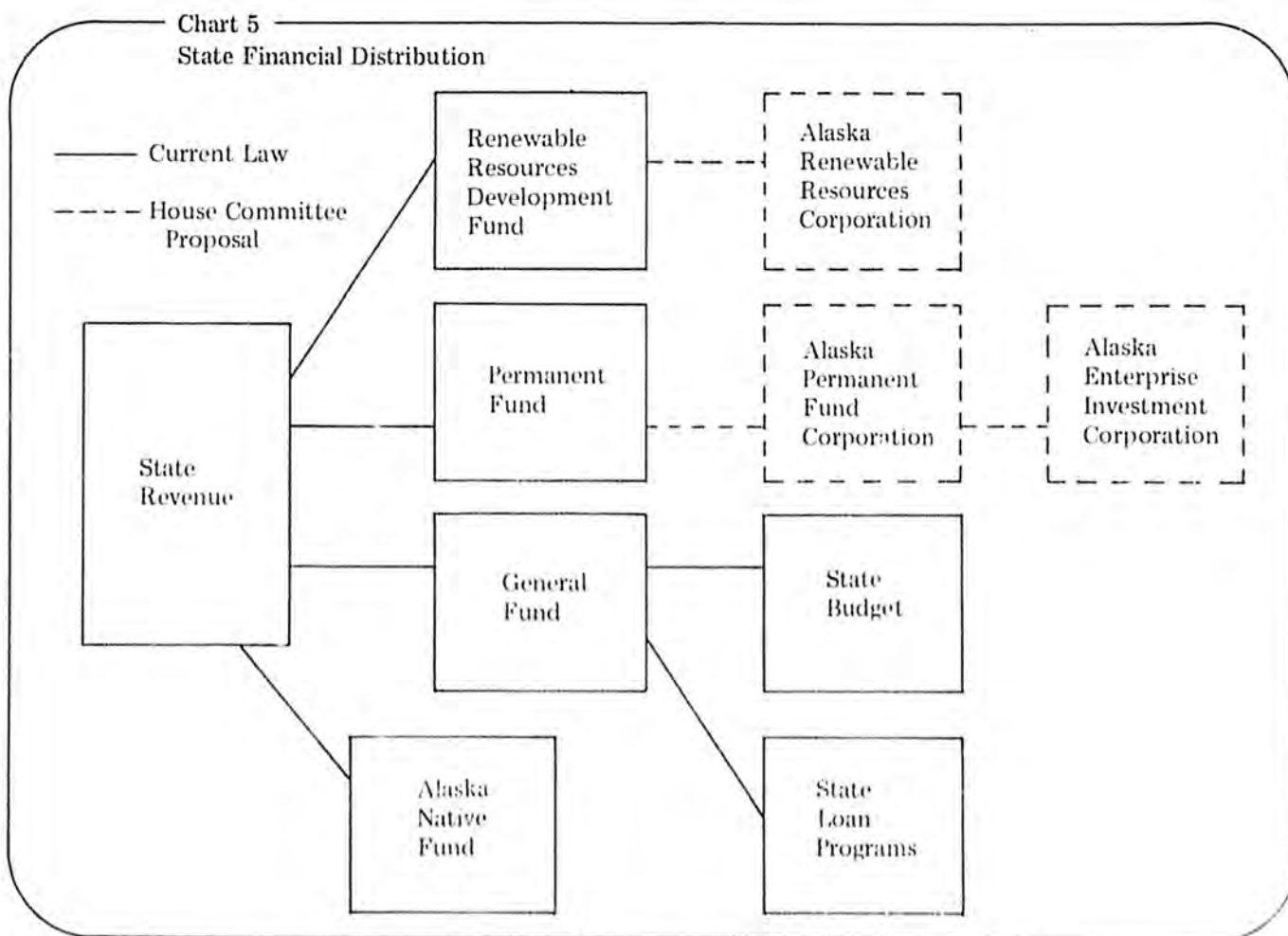
High risk would include portions of the general fund's budget and loan programs and part of the Alaska Renewable Resources Corporation.

Medium risk would include portions of those listed above and part of the Alaska Enterprise Investment Fund.

Low risk would include the Alaska Permanent Fund Corporation, part of the AEIC, and some state loan programs.

This then, is the House committee's proposal, to provide for public purposes with public funds from high risk to low.

The committee welcomes any comments you might have on its proposals or any proposals of your own. You can write to the House Special Committee on the Permanent Fund, Pouch V, Juneau, 99811.



Appendix

The following may be found in the appendix to this report:

Reports

"Thinking About the Alaska Permanent Fund: A Cautious Approach for Alaskan Policymakers," by Belden Daniels.

"Models and Options for the Alaska Permanent Fund: Functions, Regionalization and Accountability," by Belden Daniels.

"Economic Considerations in the Establishment of Alaska's Permanent Fund," by Arlon Tussing.

"Report on Trust Funds," by White, Weld and Company.

"The Role of the Permanent Fund in Alaska's Future," by the House Special Committee on the Permanent Fund.

Transcripts

Committee Meeting, July 13, Anchorage.
Symposium, September 10, Anchorage.
Public Hearing, September 14, Fairbanks.

Public Hearing, September 15, Anchorage.

Committee Meeting, November 18, Anchorage.

Minutes

Committee Meeting, July 14, Anchorage
Public Hearing/Committee Meeting
September 17, Kotzebue.

Public Hearing/Committee Meeting,
October 20-21, Juneau.

Committee Meeting, November 19, Anchorage.

Committee Meeting, December 12-13, Anchorage.

Memoranda

Revenue Projections, Legislature Affairs
Research.

Revenue Projections, Division of
Legislative Finance.

Questionnaire Returns.

Index to Committee Files (Documents
listed in the index are available upon
request).

Written Testimony

Various

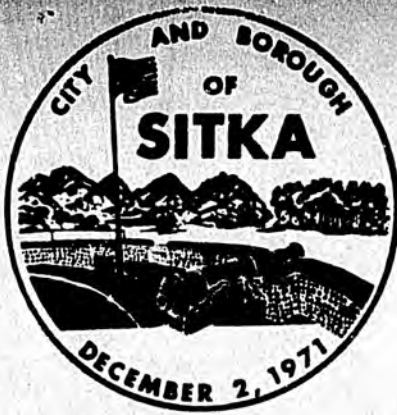
Proposed Legislation

On the Alaska Permanent Fund
On the use of Alaska Permanent Fund
earnings

On the Renewable Resources
Development Fund (work draft)

Special Committee on the Alaska Permanent Fund
Pouch V
Juneau, Alaska 99811





City and Borough of Sitka

P.O. BOX 79 . SITKA, ALASKA . 99835

August 25, 1977

Special Committee on the Alaska Permanent Fund
528 West Fifth Avenue, Suite 270
Anchorage, Alaska 99501

Gentlemen:

I wish to thank the House Special Committee on the Alaska Permanent Fund for the booklet, "The Role of the Permanent Fund in Alaska's Future", which I found quite informative. It is only through publications such as this that one learns what his fellow citizens' thoughts are on the fund which creates feedback for the Committee.

The booklet states, "that nonrenewable wealth is now being extracted and transformed into another form of wealth - money. Dedication of that wealth to the permanent fund should provide an opportunity to make this wealth a renewable resource for many generations." I will advance the argument that the nonrenewable wealth being extracted should be transformed into another form of wealth in the form of hydroelectric energy wherever possible and practical. This form of wealth meets the criteria of providing the basic necessities and opportunities for future generations by creating a non-depletable resource. To a large degree the funds which will constitute the Permanent Fund will come from the sale of oil and gas which are energy. If future generations of Alaskans are to be guaranteed any opportunities at all, the energy we are now selling must be replaced with alternate sources. I propose that a percentage of the permanent fund be ear-marked for investment in viable alternate producing sources of energy. We cannot allow Alaska to be exported to the point of energy extinction, and now is the opportunity to insure such does not happen.

Proposed legislation for investment of the fund would allow 60% to be invested in Alaska development loans, community projects and private dwellings. You will note that the proposed allowable investments all require energy. The well being of the citizens of Alaska today, and in the future will be dependent on a reliable and adequate source of electric energy. Perhaps it is the intent of the legislation already introduced to allow investment from the fund in hydroelectric and other sources of energy. If such is the case, I do not feel the proposed legislation has gone far enough, and feel alternate methods of producing energy should be spelled out in the legislation with a percentage of the fund to be solely invested for that purpose.

Page Two
Special Committee on the Alaska Permanent Fund
August 25, 1977

With all due respect to Dr. Arlon Tussing, I do not agree with the philosophy attributed to him in the booklet wherein he states, "there is no need or useful function for permanent fund investment in major industrial or commercial interprise in Alaska, unless special reasons existed to subsidize them". I find the contrary to be true at this time. What good has been accomplished for the citizens of Alaska if the permanent fund has been invested outside Alaska, earning 6% to 9%, and diesel oil for generation purposes is escalating at a rate of 11% to 16% in Alaska? I ask, who is subsidizing who under these circumstances.

Investing a percentage of the Permanent Fund to construct alternate sources of energy meets ever prerequisite proposed for the Permanent Fund. In the meantime, keep us apprised of the Committee activities.

Very truly yours,


Fermin Gutierrez
Administrator

FG:mm

August 30, 1977

Fermin Gutierrez
Administrator
City and Borough of Sitka
P.O. Box 79
Sitka, AK 99835

Dear Fermin:

Thank you very much for your letter of August 25, 1977 in response to the Committee's booklet. As you have noted, the bill developed by the State Investment Advisory Committee and introduced by the Governor as HB 298 is broad enough to allow investment from the fund in hydroelectric and other sources of energy. Nevertheless, it may be desirable to specifically designate a portion of the fund for financing non-fossil fuel energy sources or to make other existing funds such as the Water Resources Revolving Loan Fund or the Renewable Resources Development Fund more suitable to these purposes. It is one of the tasks of this Committee to consider how financing energy development should be accomplished and make appropriate recommendations to the legislature.

I'm enclosing a copy of the Committee's work schedule in which the Committee is planning to attend the Southeast Hydropower Conference in Sitka.

Good to hear from you.

Cordially,


Rep. Clark Gruening
Chairman

Enclosure



WHEAT Alaska Task Force

World Hunger Education/Action Together

7342 Madelynn Way

Anchorage, Alaska 99504

August 1977

Clark Gruening
940 Tyonek
Anchorage, AK 99501

Dear Rep. Gruening;

Please read, consider, and react to the enclosed resolutions that are part of the results of our lecture/seminar series entitled "FOOD, LAND & ALASKA."

With a grant from the Alaska Humanities Forum, we of the World Hunger Education/Action Together Alaska task group coordinated this five event, six-month effort to focus the Alaskan public's attention on the present world food crisis and explore the implications of this major global issue for Alaskans and Alaska's future, especially in the areas of land use planning and agricultural potential. Four lecture/panel events featured "expert" presentors and local knowledgeable respondents, who discussed in depth the many facets of this issue and related them to Alaskan decisions. The final 2-day seminar included presentations by Martin McLaughlin of the Overseas Development Council in Washington, D.C. and Joseph Collins, of the Institute for Food & Development Policy in San Francisco, California.

All the events were attended by people who were interested in and/or concerned about world hunger and Alaska's development. The resolutions were passed by a two-thirds vote of the fifty persons who attended the final seminar and participated in the intensive discussions of the issues.

We ask your careful consideration of these resolutions, and would appreciate your written response on how you see these might best be implemented.

Sincerely,

Majorie Wooster

Majorie Wooster
WHEAT Task Group on behalf
of the "Food, Land & Alaska" sponsors

tp

FOOD - LAND - ALASKA

Recommendations - June 10, 1977

Preamble: We recognize the viability of Alaskan agriculture, and its agricultural lands as part of the world food source. The aim of Alaska agriculture should be self-sufficient food production, as far as possible, for Alaska and possible future export of food to areas of greater need.

1. We support legislative action strengthening State-Federal co-ordination in the creation of one statewide land-use plan, containing a specific agricultural development plan which includes economic incentives to farmers and agricultural infrastructure.
2. We recommend that, from the permanent fund, a significant proportion of the annual disbursements should be allocated for implementation of the agricultural portion of the State-Federal Land Use plan.
3. We recommend that a significant proportion of Alaska permanent fund moneys be used to help finance locally owned agricultural and aquacultural production, processing, and marketing with emphasis on co-operative enterprises.
4. We recommend that the State of Alaska, through the Dept. of Community and Regional Affairs, and utilizing permanent fund moneys, enable local communities or regions to establish Renewable Resource Centers to provide technical services in the development of resources for that community or region such as food, fiber, and other amenities.
5. We recommend that the Dept. of Community and Regional Affairs and the Dept. of Education initiate the development of materials and programs which educate Alaskans at all levels of our educational system concerning the value of agriculture and aquaculture in Alaskan society.
6. We recommend that a Nutritional Impact Statement be attached to any State legislation on land use.

August 30, 1977

Marjorie Wooster
WHEAT Alaska Task Force
World Hunger Education/
Action Together
7342 Madelynn Way
Anchorage, AK 99504

Dear Marjorie:

Thank you so much for a copy of the "Food-Land-Alaska Recommendations" dated June 10, 1977.

I am in full agreement with the preamble and paragraph one. We need State-Federal coordination in a land use plan which includes promotion and development of agriculture in Alaska. The Udall bill or HR 39 now being considered by the U.S. House of Representatives as one of the proposals for classification and use most of the remaining unreserved federal land in Alaska could very seriously damage (if it becomes law) the ability of Alaska to have self-sufficient food production or a viable food export. At the very least, the remaining key agricultural lands ought to be excluded from the wilderness classification established by HR 39 so that these lands can be available for agricultural purposes.

Paragraphs 2, 3, and 4 deal with the use of Permanent Fund money to help plan and finance viable agriculture and aquaculture production in Alaska. I support the use of public monies for the purposes outlined in the task force's recommendations. The state presently has agricultural and aquaculture revolving loan funds. In addition, there is a Renewable Resource Development Fund which could also be a source of capital for food production enterprises as well as Alaska food production research and development. The Permanent Fund is, therefore, not the only possible source of public money for these purposes. One task of the House Special Committee of the Permanent Fund will be to consider your proposal along with the numerous other suggestions for use of Permanent Fund money and decide which of the above mentioned funds including the General Fund is most appropriate for the task.

Marjorie Wooster

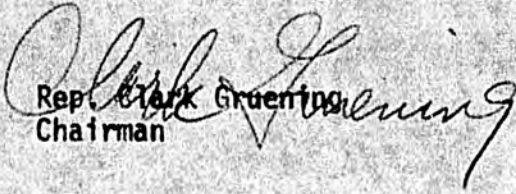
-2-

August 30, 1977

Please find enclosed a copy of the Committee's publication with the attached questionnaire. If you would like additional copies or further information, please feel free to contact us.

Good to hear from you.

Cordially,


Rep. Clark Gruening
Chairman

Enclosure

Dear Representative:

Plent

I am interested in more information on what types of ideas & uses we & yourselves are planning for our permanent fund.

Thank you.

Marie Motchman

ITT Arctic Services

Barrow AK

99723

Permanent Fund
528 W 5th Ave
Anch. AK 99501

August 29, 1977

To whom it may concern,

"Should the money, which by law must be income producing," etc.

I'm quoting this out of the paper because it says alot. In other words spend the money, yet make it back, with of course a profit.

So by 1985 you could have 2 billion? Wow! ⁽¹⁾ I say give it to any resident on a loan basis. For businesses, homes, and land. Or just anything cars, boats, T.V's. With a much, much lower interest rate on the money loaned.

(2) There is \$4 million now, well use it today, tomorrow there could be a earthquake, then it wouldn't do anyone any good. The maximum amount that could be loaned would be \$7,000.00. Just a random number that came into my head, yet \$7,000.00 goes into 4 million (which is what I understand the pot has now) 571,429 times. I understand the population is 500,000 more or less. Not everyone is gonna want a loan like children. So the rest of the money that is not loaned out could be used for my second choice, Which is research into alternate energy. " Solar I prefer, even Jimmy Carter likes it."

As far as the question you asked "Should the money be loaned to develop new industry in the state, with an emphasis on renewable resources? Please answer that question for me. Don't they already have trillions of money?

Management of the funds. I'm a bondable person and have great references/.

Don't consult, consultants any further, its cracking the golden egg little by little.

I hope you take me seriously. I'm perfectly sober when I typed this.

Sincerely yours,

Ps: Banks will not like my idea. I hope ~~XXXXXX~~ they are not that powerful to stop me.

Ms. Julie Kressler
833 A St. #4
Anchorage, AK.

Phone: 276-8240
work: 276-5676



J. Krusler 835 H 6649
Anch, AK.
Preferred General Agency of Alaska, Inc.

1550 WEST EIGHTH AVENUE, SUITE 201, ANCHORAGE, ALASKA 99501



Acme: School of American Research
Pueblo Art USA 13c

528 W. 5th Ave.
Suite 270
Anchorage, Alaska 99501

VII. Permanent Fund Questionnaire

A. Investment

The Permanent Fund belongs to you. What are your suggestions for use of the money? Would you please take the time to share your ideas with us by indicating your preferences for permanent fund investment proposals? For each proposal, please answer the following questions. Feel free to suggest as many proposals as you think we should consider.

1. What investment proposal do you suggest and how is income-producing for the Permanent Fund? [Example - invest in blue chip, preferred stocks]
2. What objectives are achieved by your proposal? [Example - high return, flexible, no growth impact on Alaska, investment as secure as stock market]
3. What objectives are avoided by this proposal? [Example - no diversification of Alaska economy, does not affect unemployment, does not effect consumer loans].
4. What may limit the effectiveness of this proposal? [Example - government can't move quickly in the stock market, investment is high and tied up for the duration of the investment, possible large losses]
5. Which groups would benefit from this proposal? [Example - financiers, brokers]
6. What groups are likely to oppose this proposal? [Example - developers, people looking for a government dole through a subsidized loan, people who don't trust the stock market]
7. What other comments do you have on this proposal?

Permanent Fund Questionnaire

B. Management

In addition to the investment of permanent fund monies a policy on the management and control of the Fund must also be established. What are your suggestions for who should manage the Fund? Would you please take the time to share your proposals with the committee and answer the following questions about your suggestion?

1. Proposal for management of the Permanent Fund. [Example - two-tiered board, with policy board appointed by governor, confirmed by legislature; management board of financial consultants hired by policy board. Board monitored in relation to their achievements. A five-year investment plan presented to and adopted by the legislature, reviewed and updated annually]
2. What objectives are achieved by this proposal? [Example - maintains accountability through annual adoption of investment plan, removes political tinkering through use of professional financial staff]
3. What objectives are avoided by this proposal? [Example - doesn't directly involve citizens in investment decisions, no direct control by the governor or the legislature, doesn't allow great flexibility in investment except for annual updates of five-year plan]
4. What are the constraints of your proposal? [Example - policy board could become too powerful if the legislature doesn't thoroughly review the investment plan, the integrity of both policy board members and management board members must be unquestionable]
5. What other comments do you have on this proposal?

A 1. Suggest setting base below which principal must not be allowed to fall. A balance of "safe" and speculative investments of principal that will allow this base to be maintained. To list specific type investments is questionable since market, money and need conditions change. Would suggest consideration of permanent fund investments in programs with broad benefits such as developing alternate energy sources or research and assistance in developing our renewable resources such as timber and fisheries.

2. Protection of base funds, flexibility to vary investments for highest return and greatest benefit to Alaskans, ability to drop investments that go sour fairly quickly or the absorb losses from these investments.

3. The necessary highly qualified management is expensive; short-term, special interest groups or regional political pressures could hamstring investment program (the alternative of over-insulating management from public pressures should be avoided, however); no matter what investment programs finally are selected, somebody is going to bitch.

4. Returns from research and development programs could be slow (in some instances there possibly would be no dollar return at all); political and special interest pressures cannot be wholly avoided.

5. Hopefully, we all would. Care should be taken to avoid drizzling away the money for half-baked schemes or in vague and fuzzy studies.

6. Certainly persons who hope to make a political or financial "killing" from the permanent fund and are barred from doing so (if this is possible) would be unhappy. There will be proposals for investment--seemingly valid--that will benefit too few persons for the dollars expended or will offer too little likelihood of financial payback to the fund to be acceptable and certainly these people would object. Those who are hopeful of eliminating the state income tax no doubt would have a word or two to say.

7. Your examples certainly are leading, are they not?

B 1. Your example looks pretty good to someone unfamiliar with management. Suggest that policy board membership be large enough so that segments of the public often overlooked could be included. Both boards certainly should be accountable and accessible to the general public, either through its elected representatives or directly. Since it appears that the income from the permanent fund will go into the general fund, there should be some protection against milking the permanent fund for high returns while overlooking some very necessary public needs that the permanent fund could meet but for which the returns might be less.

2. Allows for the broadest possible public participation with-

out surrendering necessary controls. Professional financial staff a must but its investment thinking must jibe (at least to a large degree) with that of the general public or be acceptable to it.

3. No particular thoughts.

4. Unless the boards have some direct contact with the general public--so that the public understands what they are doing and why--legislative or executive branches could twist board action for political gain. While the integrity of board members should be above question, integrity sometimes is a poor shield when an unscrupulous person hopes to make political hay. For that reason, the accountability of the boards should not be restricted to the legislature.

Sept 3, 1977

From the desk of Andrew Klein:

Concerning input on the use of money in the Alaska Permanent Fund.

I feel that Alaska and Alaskans have been very foolish in the wise use of new money and old. I have been in Alaska 13 yrs and it is pathetic where our priorities lie, from all aspects of Alaskan ventures. In some areas we have been wise, but very few. If Alaska is to grow the people of this state have to start thinking like sensible sane people and not money hungry "get all I can for it all goes" illiterate slob. If we take it easy on plan wise use and get the Fed. gov out of a lot of our business, Alaska can lead the way not fall in behind the rest of the mistakes of those before us who developed the so. 48.

Now for a few ideas I have on use of this Fund.

1. We could let it ride in the fund and use the interest for

A. Construction of adequate sewage and water & elec power in all rural villages. With the use of some of the people right in the area to do the work.

B. Education of natives (Indian, white, etc) how to sustain their life styles to go along with needs.

C. Upgrade roads and equipment and train those in area to maintain.

2. Could invest it in Alaska not a so. 48 venture.

a. Free our State Fish & Game from politics and get the biologist out in the field.

b. Clean up W.W II debris and other eyesores.

c. Build a better Marine Hwy and own the rail road too.

A Rural Capital
Needs
B Education
C Infrastructure
Dramatic effect on
creation of local
jobs
(10-state investment)

D. Build facilities for sports and similar activities
to give our youth and adults constructive outlets
to relieve long winter nights.

E. Up grade the social services with competent people.

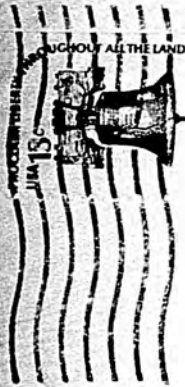
All I know is that we have to plan for tomorrow
sensibly with Alaska the land in mind and its people
blending in not devastating. This is not the Last
Frontier. This is the New Frontier for tomorrow. We
can use it or abuse it. The Choice is mine to use
it in an asthetic or pleasing manner.

Thank you

Andrew Klein

P.S. Not able to make the Sept 15 public hearing be-
cause I will be guiding.

Andrew Klein
4401 Forest Rd #2
Anch. Ak 99503



Alaska Permanent Fund
528 W. Fifth Ave
Suite 270

Anch. Ak 99501

August 31, 1977

Richard D. Seifert
Research Associate in Water Resources
Institute of Water Resources
University of Alaska
College, AK 99701

Dear Rich:

I very much appreciate your thoughtful letter on the concept of using income earned by the Permanent Fund for seed money for relevant research projects to test, develop and demonstrate renewable, alternative energy resources for Alaska.

I do agree that there is a great deal of relevant research that could be performed on Alaska problems which usually do not attract sufficient federal funding.

This Committee, in addition to the task of developing proposals for the management, investment, and goals of Permanent Fund principal and earnings, is also examining new enabling legislation for the Alaska Renewable Resources Development Fund. The Renewable Resources Development Fund, which was set up in 1974, dedicates five percent of the same non-renewable resource revenues that are also subject to contribution to the Permanent Fund. One main difference between the two Funds is that monies from the Renewable Resources Development Fund can be appropriated (grants as well as loans) only for capital and operating expenditures for the rehabilitation, enhancement, and development of renewable resource programs.

This Committee has a Renewable Resource Subcommittee headed by Rep. Terry Gardiner. The Subcommittee is considering, among other things, the establishment of a research and development council which could be

Richard Seifert

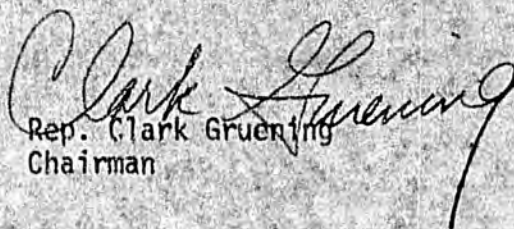
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August 31, 1977

located outside existing agencies. In any case, I think your idea is adaptable to both Funds; and I am forwarding to Rep. Gardiner a copy of your letter together with a request that you be informed of its meetings. Enclosed is a copy of our meeting schedule which includes Fairbanks on September 14, 1977.

Good to hear from you.

Cordially,


Rep. Clark Gruening
Chairman

Enclosurecc: Rep. Sall

cc. Rep. Sally Smith
Rep. Terry Gardiner



UNIVERSITY OF ALASKA
COLLEGE, ALASKA 99701

August 3, 1977

Representative Clark Gruening
940 Tyonek
Anchorage, Alaska 99501

Dear Clark:

It has come to my attention, and fortunately, that you are a major functionary in the Legislative Committee which deals with recommendations for the permanent fund. I have a concept which I would like to present in a letter concerning the use of these revenues which will result from the use of the permanent fund. The concept stems from discussions with Representative Sally Smith here in Fairbanks and also from many deliberations with friends and associates at the University of Alaska, Fairbanks.

Before I get into the specifics of that proposal, however, I would just like to say that I enjoyed seeing you and having you in a group at the public forum meeting here in Fairbanks in April. It is my only association with you so I can envision speaking to you from that point of view. I mentioned the public forum because it is a factor in one of the decisions to consult with you about this concept. The public forum was designed to reach out to the community and get its input as to the many uses for our oil revenue and some of our public policy issues, not the least of which of course was the permanent fund money. In reviewing some of the results of the early public forums in Alaska, I note that renewable resource development was extremely high on the list of public recommendations for uses of the permanent fund. For instance, on question number 1, on what to do with the oil and gas wealth, southeast Alaska recommended that it be reinvested in renewable resource development, the second choice on the north slope was that the oil and gas wealth be reinvested in renewable resources, again it was suggested in southcentral Alaska, that for the permanent fund the first choice for that investment be renewable resource development. The reason I am dwelling on renewable resources is because that's where my concept lies. In addition, although results aren't in from the Fairbanks and latter series of public fora, 41 percent of the people in Fairbanks who responded to the questionnaire, stated that their first priority would be to loan permanent fund money to develop renewable resource industries, so it seems fairly well established that at least the public that responded to the fora is very interested in renewable resource development in Alaska as a wise use of short term capital gains from the oil industry.

Representative Clark Gruening

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August 3, 1977

As a further explanation, let me say that I am a professional research scientist at the University and I can see that as somewhat of a bias as to what I am going to propose. However, I think you will see that the basis of my proposals are also deeply rooted in a philosophical approach to the future and have a great deal of merit in their beneficial possibilities for Alaska's public.

Also, for more background, let me give you a scenario of what presently exists in the research system for funding proposals in Alaska. I, as a researcher, can conceive of an idea in my office and the first step would be to sit down and propose it in writing, first perhaps to my supervisor, then perhaps to a government agency. At present, however, the situation in energy research is national in scale and often Alaska's problems are very esoteric and unique only to Alaska. Consequently, Alaskans, when they go to the federal funding sources -- ERDA, and the Department of Housing and Urban Development -- must be able to document the national need and the national applicability of every proposal. One can easily see that because of Alaska's unique climate and environment we can't always meet those conditions. A logical alternative in this case would be to go to the state for problems which are most relevant to the state and are unique to the state. However, our state has a fiscal problem as it is and the burden of large scale research projects at present are not easy to deal with from the fiscal point of view, so the motivations for getting research projects in Alaska, at present, often result in projects that are not always beneficial to the State of Alaska in a specific sense. They are of a more general nature, perhaps military in nature, or can exploit the unique conditions which Alaska avails to scientists, such as the auroral research and research in arctic problems and engineering. What this results in, in effect, is a research establishment and a research program which often is very vulnerable to attacks of relevance. By its very nature the system excludes projects which can be specifically relevant to Alaska. Therefore, I would like to propose a new and improved system, a system that can work if its done correctly, without the creation of a new, large bureaucracy to cope with it, a system which can enhance the value of the University to Alaskans in general, and perhaps give greater security from the threat of fossil fuel shortages, and the resultant social chaos which inevitably follows from energy crises.

Recent discussions with Sally Smith and my good friend, Lee Leonard, who is also an energy scientist, have brought us to the point of posing this concept of using the earned revenues from the permanent fund for seed money for research projects to test, develop and demonstrate renewable, alternative energy resources for Alaska. Now, the question immediately arises: how will this work, in effect, and how will it be administered, and how will it benefit Alaskans? First of all, this will show that the State of Alaska is willing to put its confidence in its own research to solve its own problems and will allow researchers who are interested in getting federal funding, to demonstrate with much more legitimacy than they presently do, that the problem has a very high degree of state interest, that the state is interested enough to put its own money into the research, and consequently will make it easier to satisfy

Representative Clark Gruening

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August 3, 1977

and convince federal funding agencies of the value of this project to the state, and perhaps to the rest of the country. Undoubtedly there will be spinoffs from our own research when successful that can be used in other areas. We have the psychological advantage in Alaska that when projects are successful, especially applications of alternative technologies, the severity of the climate, the renowned difficulty of living in Alaska makes a very strong case in support of any device or technology which is successful here. As to the administration of such a fund, it would necessitate funding through a state agency. However, it is my belief that the present University administration could easily adapt to the administering of such a program at the state level. Presently there is a Vice Chancellor for Research and Advanced Study in the University system. He could appoint a deputy that could administer the program of energy research partially funded by the permanent fund without any huge bureaucratic system which would tend to just eat up the money and not be productive in terms of serving the prescribed goals of the concept. In this way the system could be used as I stated earlier, to improve the image of the University in its role as improver of the commonweal and promoter of technologies which will better enable Alaskans to live their own lives according to their own standards and their own aspirations.

Lastly, one of the benefits of such a system would be to establish a resource base which would be valuable in its continuity. At present, ongoing programs are very, very rare, and seldom do research projects last more than two years and three years is an absolute maximum. Consequently, if solutions to problems can't be reached in that time, the problems are not usually viable for refunding even though a solution may be reached farther along with new breakthroughs, new applications, or new insights. Nothing seems more logical at this point in our history than looking ahead to the future, seeing that oil will be depleted, realizing that the capital supplied by oil can be very productive in providing us with a sustained, economically viable, environmentally enhancing technology which can sustain us indefinitely after the period of oil wealth has declined.

As a further statement and recommendation in support of this concept, I would like to cite quotes from the summaries of the report to the Governor from the Interior Alaska Energy Analysis team. This quote has just recently been released and includes the following recommendations of interest to this proposal: (1) that the State of Alaska must clearly and firmly establish and follow a strong policy on energy planning. Primary attention should be given to insure the stability of energy supplies through a mix of energy sources. (2) that the use of solar heating and the utilization of waste heat should be encouraged in the private sector, possibly through tax incentives and advantages. It is noted that the proposed federal policy is now a favorable tax advantage of 40 percent on the first \$1,000 cost and 25 percent on the next \$6,400 cost. This should be a minimum starting point. (3) the state should expedite an active and aggressive research program of all sources of energy with full consideration of multiple values.

Representative Clark Gruening

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August 3, 1977

Lastly, I would like to offer my time for any consultations you would like to have on this matter. Again, it seems like a very wise and logical path to choose, allowing us to use our oil wealth for a better, cleaner and renewable future. I look forward to your response and to the possibility of supportive legislation in lieu of this concept.

Yours sincerely,



Richard D. Seifert
Research Associate in Water Resources

mh

cc: Lee Leonard
Sally Smith

9-15-77

Permenant Fund Committee
528 W. 5th Ave.
Anchorage, Ak.

Gentlemen:

As a long-time Alaskan I would like to see the Permenant Fund used for such projects as the building of the "Bradly Lake Hydro Project". This would pay for itself over the years, returning the moneys, plus interest, back into the Permenant Fund.

Perhaps a toll-bridge accross Turnagain Arm, maybe a dam would produce electricity. (I am aposed to a Knik Crossing because it would benefit the "large land investor" and not the Alaskans.)

There must be other resource developments that would return funds to the Permenant Fund.

Yours very truly:



B.E. Uminski
Box 1258

Homer, Ak. 99603

P.S: I made the above suggestions to (then) Governor Egan, he never replied. A banker told me, "if Egan gets back in the millions will disapear in no time. I found it unbelievable at the time. I would hate to see the same thing happen to our Permenant Fund.

Municipality of Anchorage



3000 ARCTIC BOULEVARD
ANCHORAGE, ALASKA 99503
(907) 277-7622

GEORGE M. SULLIVAN,
MAYOR

DEPARTMENT OF ENTERPRISE ACTIVITIES
Sewer & Water Utility

September 30, 1977

Representative Clark Gruening
Chairman, Permanent Fund Committee
House of Representatives
State of Alaska
528 West Fifth Avenue
Anchorage, Alaska 99501

Dear Representative Gruening:

During the next six years the Anchorage Water Utility projects its needs to be in the area of 49 million dollars. The largest dollar amount is for water resource development; this totals 18.5 million dollars. Close behind is distribution and transmission projects which total 17.6 million dollars. The Municipality will be seeking long-term financing for those projects in the form of revenue bonds if a capital structure can be obtained from which to base financing. This particular area is where the permanent fund can best help the Municipality of Anchorage Water Utility. The Municipality of Anchorage Water Utility feels that, whatever the final program approved, it must be one which will sustain the fund in perpetuity. That will require some form of strong commitments being guaranteed from the agencies using the funds.

As I have stated previously, the Municipality of Anchorage Water Utility has projected for the next six years funding requirements totaling 49 million dollars. Of this amount, 36.1 million is for large resource development and transmission projects. These projects will be on-going for a long period of time, possibly three to five years. Our current ruling from the Alaska Public Utilities Commission does not allow us to earn on construction work in progress, unless it is used and useful within one year. Thus this puts the Utility in a poor position to attract debt for projects needing large amounts of funding. Thus for long-term, phased construction requiring large amounts of debt service, the Municipality should support direct long-term loans with a sliding-scale interest rate and with a clause for rear-end loading. This would then allow the Utility to earn on that amount of funding when the plant is used and useful. To facilitate this type of loan, the State must be assured that a viable capital structure and all other facets of the financial picture are



Representative Clark Gruening
September 30, 1977
Page 2

healthy and will remain that way throughout the life of the loan. Guidelines must be developed which will assure that the financial projections used are realistic and meaningful. Proper master development plans must be developed and kept current.

~~Loan guarantees, especially where a legal challenge has held up financing on a needed project, would also be desirable.~~ Guarantees which back a municipality's bonding requirements would greatly enhance the attracting of debt. A word of caution here is due. We hope no one will get the idea that "so ~~what if we default, the State will pick up the debt~~". Again, this method of financing must have its safeguards.

Sincerely,

George M. Sullivan
Mayor


Dale R. Merrell, P. E.
Manager, Anchorage Water Utility

DRM:cr

Municipality of Anchorage



3000 ARCTIC BOULEVARD
ANCHORAGE, ALASKA 99503
(907) 277-7622

GEORGE M. SULLIVAN,
MAYOR

DEPARTMENT OF ENTERPRISE ACTIVITIES
Sewer & Water Utility

September 30, 1977

Representative Clark Gruening
Chairman, Permanent Fund Committee
House of Representatives
State of Alaska
528 West Fifth Avenue
Anchorage, Alaska 99501

Dear Representative Gruening:

Out of 51 letters sent requesting information to be submitted on the subject of the permanent fund, we received 10 comments:

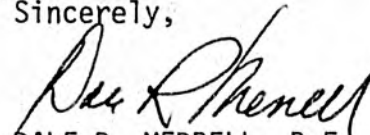
Port Lions	Needs \$500,000 - \$800,000 for water system improvements. In the form of direct loans.
Ouzinkie	No thoughts rendered.
Kodiak	1977-87 will need \$10,000,000 for water system improvements. 1987-97 will need \$15,000,000 for water system improvements. Has no comments on financing options.
Kenai	Need \$500,000 to \$1,000,000 per year for water construction. Prefer low cost financing for bonds to be used for construction.
Unalaska	Need \$6,000,000 in next 20 years for water systems. Need some- way to back revenue bonds.
Nome	Indicated they would reply directly to Chairman of Senate Permanent Fund Committee.
Juneau	Have replied to Senate Committee on Permanent Fund
Scammon Bay	No need expressed.
Fairbanks	\$53,000,000 over next 20 years. Direct low interest loans - used as a continuing source of long-term financing.



Representative Clark Gruening
Chairman, Permanent Fund Committee
September 30, 1977
Page 2

Anchorage \$49,000,000 over next 6 years, of which 18.5 million would be for water resource development and 17.6 million for transmission and distribution projects. For long-term, phased construction requiring large amounts of debt service, direct, long-term loans with a sliding-scale interest rate and with a clause for rear-end loading would be preferred.

Sincerely,



DALE R. MERRELL, P.E.
Manager, Anchorage Water Utility

DRM:ks

November 28, 1977

Dale R. Merrell, P.E.
Manager, Anchorage Water Utility
Municipality of Anchorage
3000 Arctic Boulevard
Anchorage, AK 99503

Dear Dale:

Please excuse the delay in acknowledging your two letters of September 30, 1977 outlining the need for water utility projects in Anchorage and in those municipalities responding to your inquiry.

Your letters have been incorporated in record of the Committee's hearing which include all the written and oral testimony received to date on the structure and management goals of the Permanent Fund.

The House Committee is considering draft legislation which would establish a Permanent Fund board of trustees appointed by the Governor and confirmed by the legislature. In order to sustain the Fund in perpetuity, the overriding statutory investment guideline for these trustees is to invest the Fund monies in such a way to bring the highest net return to the Fund consistent with the safety of principal of the Fund.

To the extent, the Fund is involved in water utility projects, including hydroelectric projects, it would be to guarantee loans or revenue bonds either through pledging a portion of the Fund investment securities or earnings stream to back the repayment and not by making direct loans. Moreover, the Fund would probably best operate through intermediaries such as the Alaska Power Authority and the Municipal Bond Bank. In any event, the Fund, as a tax exempt entity, would probably not be investing in the tax municipal bonds.

Dale Merrell

-2-

November 28, 1977

Since you mentioned that any bond guarantee program must have its safeguards, I wonder if you have in mind any particular provisions for safeguarding the Fund. In this regard, I would also appreciate your view on allowing the Municipal Bond Bank to sell revenue bonds to assist the water projects you outlined.

Cordially,


Rep. Clark Gruening
Chairman

3228 Illiamna
Anchorage, Ak. 99503
August 30, 1977

House Special Committee
on the Alaska Permanent Fund
528 West 5th Ave., Suite 270
Anchorage, Ak. 99501

Gentlemen:

This letter constitutes written testimony in response to the flyer sent to our home this month. It seeks to make the one point that the value of the Permanent Fund must be judged relative to the size of the population and the need for government services.

Assuming the Fund finally totals \$5 billion. If that Fund has been used to diversify the State's economy by direct investments or guarantees, we can expect to have a larger population and demand for government services. Unless that diversification pays very clearly in tax receipts for the needs of the larger population, when the oil flow stops or declines the \$5 billion will have to cover a large shortfall between receipts and the demand for government services.

Assume again that the Fund finally totals \$5 billion but that it has been invested out of state with the objective of growth in capital and maintenance of purchasing power, Fund loans and guarantees will not have been added to State general fund investments, ANCSA corporation investments, OCS investments, capital move expenditures, and other private investments in the total of funds injected into the economy. The State will not attract as large a population. The need and expectation of services will be smaller. The shortfall between receipts and the demand for government services should be smaller.

A smaller shortfall should give the State time to react to any decline in the economy since Permanent Fund moneys will not have to be used up quickly to maintain our standard of governmental services. More funds will be available per each individual in the population.

The desire to maintain maximum value of the Permanent Fund as a "nest egg" is the primary reason I believe most people voted for the Fund. Any of the alternatives which involve either major investment projects or guarantees or loans to businesses which would not otherwise be funded will only increase the eventual shortfall and thus lower the value of the Fund as a reserve. Those investments are also among the most likely not to pay their way in taxes beyond the costs they add to the public.

House Special Committee on
the Alaska Permanent Fund
August 30, 1977
Page Two

I believe that the State should rely primarily on private capital and general fund capabilities for in-state investment and that the Permanent Fund should be invested with an objective limited to growth in capital and maintenance of purchasing power, preferably in out of state investments.

Very truly yours,


Olof K. Hellen

Alaska Methodist University

Anchorage, Alaska 99504

Office of the President
907-276-8181

September 30, 1977

Representative Clark Gruening, Chmn.
House Special Committee on
The Alaska Permanent Fund
528 W. 5th Avenue, Suite 270
Anchorage, Alaska 99501

Dear Representative Gruening:

We in the field of postsecondary education are just beginning to fully realize the potential benefits of The Alaska Permanent Fund in pursuing the "good life" for generations to come. From our perspective in private institutions of higher learning we view the Fund not simply as another source of dollars to pay the bills, but as a real opportunity to think in terms of great learning centers.

I appreciate the invitation you and the Members of your Special Committee have extended to Alaskans to express thoughts and suggestions on objectives and management philosophy of The Fund.

As a distinct component of a higher quality of life, postsecondary education--vocational as well as academic--will not flourish by random attempts at securing support. It will prosper on "permanence" as well as diversity. With these components, Alaskans can renew themselves, that is their minds and skills, to meet the future's challenges. I hope we can all agree in the concept of renewing our educational resources and place at least as high a priority on that as we might on wind generation, fishery enhancement and other nominal "renewable resources."

Secondly, higher education is a job-producing and job market enhancing sector of the state economy; let us rid ourselves of any preconception that may be held that education is non-productive in the pure economic sense. Well developed, quality educational curricula can and have in many localities formed an attractive magnet for greater economic activity. Training and retraining employees right here can also help keep enterprises and public entities from having to go Outside for their academic and vocational support. There are many centers of education all over the world which form the heart of local/regional economies. Why not try it in Alaska? Is education one of the stable, clean industries we hear ourselves yearning for?

It is my firm belief that postsecondary education here (1) ought to be intensively developed and (2) must be extended to embrace varied philosophies. While the role of publicly financed institutions is legitimate, so too is the casting of schools

Representative Gruening
House Special Committee on
The Alaska Permanent Fund

that rely primarily on non-public sources of funds. Not only are state schools and private schools important to their respective communities of interest, but in fact each needs the other in order to reach its highest potential. We need a strong, balanced critical mass on which to found the industry of the future. An analogy, though imperfect, is in a statement made by the Alaska Manager of J. C. Penney, Inc. When asked his opinion of the effect of an impending decision to locate a major department store across "D" Street from his store, he replied that to give him a good competitor nearby would double his business. We are in an era of comparison shopping.

The philosophy of Alaska Methodist University toward its educational mission is quite distinct from any competing institution. Colleges, universities, and vocational centers are part of various "communities". Without trying to limit any other institution by enumeration, suffice to say Alaska Methodist University is carving out a unique set of communities of interest not previously developed. One of these is the Pacific Rim focus currently under way. We are very enthusiastic about its possibilities for a broad area of specialty.

What then does this have to do with The Alaska Permanent Fund discussions? Simply this: Over the next thirty to fifty years Alaska is projected to grow and develop as a world center for natural resources and northern culture. With this growth will come increasing demands for postsecondary educational services to residents as well as participants in the larger communities in which we play a leading part. Hence it is important to encourage varying mechanisms or vehicles to gear up to deliver these services. And we need more than one university, more than one corporate educational policy, if we are to realize the full potential of this future industry. What remains is to examine in what ways can the proceeds or royalties from non-renewable resources be utilized to provide the financial foundation making development of this renewable resource possible.

Before I present the University's suggestions for your consideration, let me turn first to a question which may arise and which some consider basic to this proposal.

Is it legally appropriate to use Permanent Fund monies in support of private institutions of learning? I am not certain this question will come up, but in the event it does, my response is this: The principal and income of the Permanent Fund are not tax dollars; they are royalties (equivalent to gifts) derived solely from nature's storehouse of non-renewable energy resources. Even those claiming it is illegal for the legislature to appropriate funds from state tax revenues for aid to private education (a view which has serious flaws and is being challenged) would agree that there are no such restrictions on use of The Permanent Fund monies. Naturally, the investment of the Fund principal must adhere to the constitutional amendment requiring investment in "income producing assets". Similarly use of the income of the Fund must be in conformance with legislative mandate as required. If, however, diversification of the state economy is one of the objectives finally adopted, making a loan to a private university should be no different than making

Representative Gruening
House Special Committee on
The Alaska Permanent Fund

a loan to any other business enterprise. In fact, clean industry should probably have priority.

With these thoughts in mind, we urge the Special Committee to provide authorization or policy guidance to achieve the following specific objectives:

- Define education, including postsecondary vocational and academic education, as an integral part of the state economy for purposes of the Permanent Fund.
- Authorize investment of the principal and income of the Fund in private institutions of learning as well as public. Permit funds to be invested in such institutions in any manner permitted other private enterprises. Such investments in private institutions of learning may be accomplished via other lending or investment vehicles of the State of Alaska, including the
 - * Scholarship Loan programs
 - * Fisheries Enhancement Revolving Loan Fund
 - * Municipal Bond Bank Authority
 - * Business Revolving Loan programs
 - * Veterans Affairs Revolving Loan Fund
 - * Agricultural Revolving Loan Fund
 - * Alaska State Housing Authority and Alaska Housing Finance Corporation
 - * Industrial Development Authority
- Provide for special incentives to clean industry.
- Provide for special incentives to stable industry.
- Provide for special incentives to recipient industries or enterprises which are not eligible for other state funding.
- For private, non-sectarian institutions of learning provide for funding on a matching basis of a significant endowment program where it is demonstrated that such assistance is used to achieve overall objectives of the Permanent Fund.

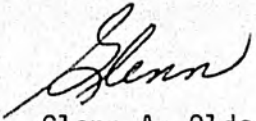
As you can readily see from these comments and suggestions we in postsecondary education are fervently working toward an oft-stated Permanent Fund objective, higher quality of life for Alaskans over the long haul. With vigorous, wise leadership we can find a way to turn a fledgling industry into a winner. Alaska's future is marked by rapid growth and international attention, and we believe a joint effort by publicly financed and private institutions--and only through joint effort--will result in educational greatness. If private institutions are to play a part, The

Page 4

Representative Gruening
House Special Committee on
The Alaska Permanent Fund

Permanent Fund is a key facilitator. It is our hope the Special Committee will adopt the same view and translate these ideas into legislative policy.

Cordially,

A handwritten signature in cursive script, appearing to read "Glenn", written in dark ink.

Glenn A. Olds
President

GAO:ec1

cc: Jay S. Hammond, Governor
Members, House Special
Committee on The Alaska
Permanent Fund

December 23, 1977

Glenn A. Olds, President
Alaska Methodist University
Anchorage, AK 99504

Dear Dr. Olds:

Thank you very much for your letter outlining a proposal for use of the Alaska Permanent Fund. I apologize for having taken so long to reply.

I appreciate the fact that you took the time to reflect upon uses of the Permanent Fund and offer your views to the committee. It is, I believe, only through a thoughtful approach that we will be able to realize the potential the Fund embodies.

The committee is in the process of preparing its proposed Permanent Fund legislation and final report for submission when the legislature convenes. We hope to be able to circulate both to those, such as yourself, who have expressed an interest in the Permanent Fund. We will be soliciting written comment on the legislation and intend to hold public hearings on the proposal, perhaps as early as late January.

The section of the proposed bill that seems most likely to apply to your suggestion is the Alaska Enterprise Investment Corporation, designed to provide financial assistance to small and medium scale productive private enterprise and community development projects.

However, whether or not private educational institutions would qualify is unclear, if not doubtful. The constitutional amendment requires that Permanent Fund investments be income producing, which the Committee has defined as meaning that such

Galeen Olds

-2-

December 23, 1977

investments would have to produce a direct financial return in addition to repayment of principal.

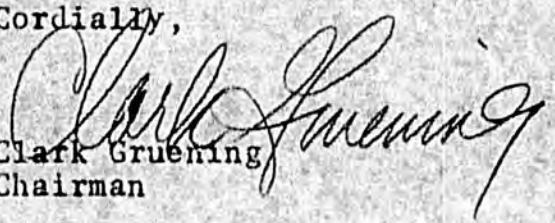
The committee likewise has approved a proposal for use of Permanent Fund earnings to provide guarantees for power projects. This is, I point out, a discussion proposal and we anticipate substantial debate on the use of Permanent Fund earnings.

It seems clear, however, that proposals to use the earnings for private educational institutions will face tough sledding until the whole issue of public financial support for private education is resolved. It seems unlikely that the legislature would concur in your characterization of mineral royalties as gifts. Indeed, royalties are far more likely to be considered simply as public revenues and under the same constitutional constraints as other revenues, including taxes.

Nevertheless, I have always supported the tuition grant program and AMU specifically.

Again, I thank you for your letter and hope that you will continue to focus your attention on the Alaska Permanent Fund.

Cordially,


Clark Gruening
Chairman

CG:LAD

ERIC WOHLFORTH

TO: ALASKA STATE CHAMBER OF COMMERCE

DATE: FRIDAY, SEPTEMBER 30, 1977

AS PART OF A PANEL: "PROSPECTS FOR THE PERMANENT FUND"

DEVELOPING GOALS AND EFFECTUATING LEGISLATION FOR THE
USES OF THE PERMANENT FUND MUST START WITH A REALIZATION
THAT THE PERMANENT FUND IS A UNIQUE VEHICLE IN A UNIQUE
POLITICAL AND ECONOMIC ENVIRONMENT IN THE UNITED STATES.
THE PERMANENT FUND IS UNIQUE IN CARVING OUT OF GENERAL FUND
REVENUES, A PERCENTAGE OF RESOURCE REVENUES WITH THE EXPLICIT
RECOGNITION THAT THE RESOURCE REVENUES ARE FINITE AND ARE
NON-RECURRING. IN MY VIEW, THE VOTERS RECOGNIZED THIS IN
STATING THAT THERE MUST BE A RESIDUUM OF CASH ASSETS AVAIL-
ABLE FOR FUTURE GENERATIONS WHEN NORTH SLOPE OIL IS EXHAUSTED.
ALASKA'S ECONOMIC AND POLITICAL SITUATION IS UNIQUE SINCE WE
COMBINE A STATE WHICH IS PREDOMINANTLY DEPENDENT UPON GOVERN-
MENTAL ACTIVITIES, AS WELL AS OIL AND GAS RESOURCES FOR THE
FORESEEABLE FUTURE. THUS, ALASKANS FEEL SOMEHOW THAT OUR
ECONOMIC BASE MUST BE BROADENED AND THAT THE FUND MAY PRESENT
AN INVESTMENT VEHICLE FOR THIS PURPOSE.

IN LIGHT OF THESE PROPOSITIONS, IF THEY ARE ACCEPTED,
THE QUALITY OF THE PROCESS OF DEVELOPING PUBLIC VIEWS AS TO

THE GOALS AND USES OF THE PERMANENT FUND BECOMES IMMENSELY IMPORTANT IF WE ARE TO EXPECT A RATIONAL RESULT. AS YOU KNOW, THE INVESTMENT ADVISORY COMMITTEE WAS THE INITIAL EXECUTIVE EFFORT IN CONSIDERATION OF USES OF THE PERMANENT FUND. THIS EFFORT WAS PREDOMINANTLY EDUCATIONAL TO THE COMMITTEE. ADVISORS WERE CONSULTED TO EDUCATE THE COMMITTEE ON DEVELOPMENT LOAN AND PERMANENT FUND SYSTEMS IN PLACE ELSEWHERE. THE EFFORT DID NOT INTENSIVELY INVOLVE THE PUBLIC BUT BASICALLY WAS DESIGNED TO DEVELOP A KNOWLEDGE BASE AS TO WHAT HAS HAPPENED ELSEWHERE. CURRENTLY, THE TWO LEGISLATIVE COMMITTEES ARE APPARENTLY HOLDING PUBLIC HEARINGS ON THE SUBJECT MATTER THROUGHOUT THE STATE. AT THE MOMENT, I DO NOT SEE THE BRIDGE BETWEEN THE EDUCATIONAL EFFORTS OF THE INVESTMENT COMMITTEE WITH THEIR ADVISORS AND THE PUBLIC HEARINGS BEING HELD BY THE LEGISLATIVE COMMITTEES. IN MY VIEW, PUBLIC EDUCATION AS TO THE PARAMETERS OF THE ISSUES OF DEVELOPMENT LOAN BANKING IS NECESSARY TO EVOKE AN INTELLIGENT PUBLIC RESPONSE. FAILING THIS, I BELIEVE THAT PUBLIC RESPONSE WILL CONSIST OF REQUESTS FOR NEW LOAN PROGRAMS BY SECTORS OF THE ALASKA ECONOMY IN THE NATURE OF SPECIAL INTEREST PLEADING OR RELATIVELY REPETITIVE TESTIMONY FROM

INDIVIDUAL MEMBERS OF THE PUBLIC. IN FACT, THE WHOLE ENDEAVOR TO ESTABLISH GOALS FOR THE PERMANENT FUND COULD BE MADE THE SUBJECT OF A BROAD BASED EDUCATIONAL EFFORT THROUGH THE SCHOOL AND UNIVERSITY SYSTEMS. IT PRESENTS A FINITE PROBLEM IN ECONOMICS AND FINANCE WHICH COULD STIMULATE THE DEVELOPMENT OF SPECIFIC COURSES IN SECONDARY, UNIVERSITY AND ADULT EDUCATION. THE COURSES WOULD BE TOPICAL AND INTERESTING BECAUSE THEY INVOLVE PROBLEM SOLVING IN THE IMMEDIATE CONTEXT OF THE ALASKA ECONOMY AND ITS PROSPECTS FOR THE FUTURE. SURELY, SUCH A COURSE OF STUDY WOULD BE OF INTEREST TO ALASKANS SINCE IT INVOLVES THEIR MONEY AND FUTURE.

PERHAPS FORMULATION OF SUCH A PROGRAM IS UNREALISTIC GIVEN THE EXISTING FORMAT OF PUBLIC HEARINGS ALREADY ESTABLISHED AND THE APPARENT INTENTION TO DEVELOP LEGISLATION FOR THE PERMANENT FUND DURING THE NEXT LEGISLATIVE SESSION. IF THIS IS FELT TO BE SO, I WOULD SAY THAT MINIMALLY THE COMMITTEES SHOULD COMPILE A DIGEST OF THE EXPERT TESTIMONY ALREADY RECEIVED AND THAT OTHERWISE AVAILABLE TO IT AS TO WHAT HAS HAPPENED ELSEWHERE WITH PERMANENT FUNDS CREATED WITH NON-RENEWABLE RESOURCE REVENUES AND WITH PUBLIC DEVELOPMENT BANKING. I FURTHER SUGGEST THAT SUCH A DIGEST BE MADE

BROADLY AVAILABLE IN ALASKA TO CONSTITUTE A KNOWLEDGE BASE FOR PUBLIC HEARINGS. IN ADDITION, I THINK IMMEDIATE WORK SHOULD GO FORWARD ON AN ECONOMIC ANALYSIS OF THE EFFECT OF STATE LOAN PROGRAMS TO DATE. WE DO HAVE A KNOWLEDGE BASE IN ALASKA, BOTH WITH THE STATE LOAN PROGRAMS WHICH HAVE EXPANDED IN SIZE SINCE 1970, AS WELL AS IN THE HISTORY OF NATIVE CORPORATION INVESTMENTS IN THE STATE. TO THE EXTENT CASE HISTORIES OF SUCCESSES AND FAILURES IN NATIVE CORPORATION INVESTMENTS ARE AVAILABLE, THERE SHOULD BE AN ANALYSIS OF THIS ACTIVITY AND DISSEMINATION OF THE RESULTS.

AS TO SUBSTANTIVE MATTERS AS OPPOSED TO PROCEDURE, I HAVE SEVERAL OBSERVATIONS. FIRST, AN EARLIER STUDY OF DEVELOPMENT LOAN BANKING OPPORTUNITY CARRIED OUT BY THE STATE IN THE EARLY 1970'S, ELICITED THE FIRM RECOMMENDATION OF A REPRESENTATIVE OF THE WORLD BANK THAT STRUCTURING OF ANY DEVELOPMENT LOAN PROGRAM BE PRECEDED FIRST BY AN INTENSIVE INVESTIGATION OF DEVELOPMENT LOAN OPPORTUNITIES IN THE AREA TO BE SERVED. DEVELOPMENT LOAN BANKS ELSEWHERE IN THE WORLD HAVE BEEN STRUCTURED FOLLOWING AN INITIAL EFFORT TO ASCERTAIN THE SCOPE AND MAGNITUDE OF INVESTMENT OPPORTUNITIES. IN OTHER SITUATIONS, A COMMISSION OR COMMITTEE OF BUSINESSMEN,

ENTREPRENEURS AND INVESTORS IN VARIOUS SEGMENTS OF THE ECONOMY HAVE BEEN FORMED TO MAKE THE STUDY AND HAVE PRESENTED INSIGHTS WHICH HAVE SHAPED THE STRUCTURE AND GOALS OF THE DEVELOPMENT FINANCING INSTITUTIONS BEFORE THEY ARE CREATED. THIS IS A NEEDS ASSESSMENT PROCEDURE WHICH I THINK IT IS VITAL TO BE UNDERTAKEN IN ALASKA BEFORE A DEVELOPMENT FINANCING STRUCTURE IS LEGISLATED INTO LAW. AGAIN, I THINK THE NEEDS ASSESSMENT CANNOT BE ADEQUATELY ACCOMPLISHED THROUGH THE HEARING PROCESS, BUT MUST INVOLVE A BROAD SECTION OF THE BUSINESS, ENTREPRENEURIAL AND INVESTMENT COMMUNITY IN MAKING AVAILABLE KNOWLEDGE OF THE CONFIGURATION OF VARIOUS FINANCING OPPORTUNITIES IN THIS STATE. THIS EFFORT IS PARTICULARLY IMPORTANT IN VIEW OF THE FACT THAT THE DEVELOPMENT LOAN ASPECT OF THE PERMANENT FUND IS NOT STATED IN THE CONSTITUTIONAL AMENDMENT BUT IS ONLY ASSUMED TO BE A COMPONENT.

SECONDLY, I FEEL THAT PERMANENT FUND MONIES DEVOTED TO PUBLIC SECTOR FINANCING SHOULD BE USED ON A "LEVERAGED" BASIS. PUBLIC SECTOR LOAN USE OF THE FUND INVOLVES SOME ESTABLISHED ALASKA PRECEDENT. ESTABLISHMENT OF RESERVE FUNDS WHICH WOULD CONSTITUTE SUBORDINATED LOANS FROM THE

FUND IN SUPPORT OF LOCAL GOVERNMENT BORROWING OR STATE AGENCY BORROWING FOR CAPITAL IMPROVEMENT PURPOSES IS PREFERABLE IN ALL CASES TO DIRECT LOANS TO MUNICIPALITIES. A REASON FOR THIS VIEW IS THE FACT THAT LOCAL GOVERNMENT BONDS ARE TAX EXEMPT. IN ADDITION, THE TEST OF THE MARKET IS A VALUABLE BRAKE ON VARIOUS TYPES OF PUBLIC IMPROVEMENTS WHICH WOULD NOT EXIST IF LOAN FUNDS WERE DIRECTLY AVAILABLE THROUGH AN AGENCY CREATED TO MANAGE THE PERMANENT FUND. RESERVE FUND SUPPORT OF LOCAL GOVERNMENT BORROWING FOR PURPOSES WHICH CAN BE FINANCED IN THE PUBLIC MARKET SHOULD LOWER INTEREST RATES FOR THIS FINANCING AND IS IN ANY EVENT ECONOMICALLY EFFICIENT IF THE DEBTOR ENTITY CAN BORROW PUBLICLY AT TAX EXEMPT RATES. SATISFACTORY PRECEDENT FOR THIS PROCEDURE NOW EXISTS WITH VARIOUS STATE BORROWING ENTITIES AND I COMMEND IT TO THE LEGISLATIVE COMMITTEES IN FORMULATING THE STRUCTURE OF THE PERMANENT FUND MANAGEMENT VEHICLE.

THE EXAMPLE OF WHAT HAPPENED WITH FORMULATION OF PLANS FOR THE \$900 MILLION BONUS SALE PROCEEDS OF SEPTEMBER, 1969, SHOULD BE STUDIED. IMMEDIATELY AFTER THE BONUS LEASE SALE, BROOKINGS INSTITUTE SEMINARS WERE HELD THROUGHOUT THE STATE

TO RECEIVE PUBLIC INPUT AS TO USE OF MONEYS IN DEVELOPMENT OF THE STATE OVER THE NEXT TEN-YEAR PERIOD. SOMEHOW, THE RESULTS OF THE BROOKINGS INSTITUTE MEETINGS WERE NOT PROPERLY TRANSLATED INTO THE LEGISLATIVE PROCESS. INSTEAD, WITH THE CONVENING OF THE 1970 SESSION OF THE LEGISLATURE, HEARINGS ON THE CONFIGURATION OF THE STATE'S INVESTMENT OF THE LEASE SALE PROCEEDS BROUGHT FORTH AN ARMY OF INVESTMENT BANKERS AND FUND MANAGERS TO CONVINCING THE STATE THAT INVESTMENT IN THE STOCK MARKET WAS THE ONLY SURE PROTECTION AGAINST EROSION OF THE FUND THROUGH INFLATION. THE FORD FOUNDATION'S REPORT PREPARED BY MCGEORGE BUNDY IN 1970 HEAVILY INFLUENCED THE DISCUSSIONS AND PERCEPTIONS OF STATE OFFICIALS. THIS WAS AN ACADEMIC FORMALIZATION OF THE TOTAL RETURN THEORY OF INVESTMENT IN COMMON STOCKS. THE BEST THING ABOUT THE REPORT WAS ONE OF THE DISSENTS IN WHICH IT WAS STATED THAT IT IS POSSIBLE THAT THE EXPERIENCE OF THE PAST SEVERAL DECADES WAS A SPECIAL SITUATION IN THAT THE VAST UPWARD MOVEMENT OF EQUITY MARKETS MAY BE NEARING ITS CULMINATION. THE LEGISLATURE AFTER MANY MONTHS OF INPUT BY INVESTMENT BANKERS AND OTHERS FINALLY IN JUNE, 1970, ENACTED AN INVESTMENT STATUTE WHICH PERMITTED THE STATE TO INVEST UP TO 1/3 OF THE GENERAL FUND IN THE

STOCK MARKET AND CONTAINED EVERY OTHER CONCEIVABLE INVESTMENT PERMISSION. THE ACT WAS A MIXTURE OF GOALS, MANY OF WHICH WERE CONTRADICTORY.

THIS IS NOT TO BE CRITICAL OF THE LEGISLATURE, BUT TO SUGGEST THAT AT LEAST PART OF THE PROBLEM AND THE CONFUSED INVESTMENT ACT WHICH RESULTED, MAY HAVE BEEN BASED ON FAILURE OF COMMUNICATION BETWEEN THE PUBLIC SECTOR THROUGH THE HEARING PROCESS WHICH PROCEEDED THE SESSION AND THE LEGISLATIVE HEARING PROCESS WHICH WAS SO HEAVILY DOMINATED BY INVESTMENT BANKER ADVOCATES. THE EXAMPLE IS GIVEN TO SHOW HOW ACUTELY IMPORTANT THE PROCESS OF PUBLIC EDUCATION, PUBLIC HEARING AND COMMUNICATION CAN BE IN THE FORMULATION OF A PUBLIC POLICY RESPECTING STATE INVESTMENT.

FINALLY, I FEEL IT IS NOT UNDEMOCRATIC TO DOUBT THAT A MAGIC FORMULA FOR PERMANENT FUND MANAGEMENT CAN EMERGE FROM PUBLIC HEARINGS. THE CONCEPT IS UNIQUE AND FURNISHES LITTLE, IF ANY, ANALOGY IN AMERICAN LOCAL GOVERNMENTAL EXPERIENCE. THE ONLY HOPE WE HAVE FOR NOT REPEATING SOME OF THE MISTAKES OR HALF SUCCESSES OF THE PAST IS INTENSIVE STUDY AND PUBLIC EDUCATION WITH EFFICIENT DISSEMINATION OF THE RESULTS TO THE PUBLIC. TO THE EXTENT THIS PHILOSOPHY IS NOT REFLECTED IN

CURRENT EFFORTS, I ADVISE THE LEGISLATORS INVOLVED TO BACK UP AND EXAMINE THE PRODUCTIVITY OF THEIR EFFORTS TO DATE. IF WE LOSE SIX MONTHS ON A STUDY FORMULATION PROCESS, IT IS A SIX MONTHS EASILY LOST IN VIEW OF THE FACT THAT THE PERMANENT FUND WILL NOT ACHIEVE ANY SIZABLE VOLUME UNTIL TWO OR MORE YEARS FROM DATE. IF WE FAIL TO STUDY OUR EXISTING LOAN PROGRAMS, THE FOUR YEARS OF NATIVE CORPORATION INVESTMENT EXPERIENCE, AS WELL AS WHAT HAS HAPPENED ELSEWHERE THROUGHOUT THE WORLD, WE ARE CONDEMNING OURSELVES TO REPEATING PAST MISTAKES AND MISSING THE OPPORTUNITY OF ENHANCING THE ECONOMY OF THE STATE OF ALASKA TO THE BETTERMENT OF ALL THE CITIZENS.

* * * * *

George L. Benesch
Attorney at Law

213 West Sixth Avenue, Suite 1
Anchorage, Alaska 99501
October 13, 1977

The Honorable Clark Gruening
Alaska House of Representatives
360 "K"
Anchorage, Alaska 99501

Dear Clark:

I had planned to attend the hearing on disposition of the State Permanent Fund but didn't make it. Therefore, I am enclosing a copy of my letter of February 23, 1977 to Governor Hammond concerning use of the fund for renewable resource development. I received an acknowledgement of the letter from Phillip Hubbard March 14, 1977 (also enclosed), but have heard nothing further.

Another possible use that might be worth looking into a little further would be the development of port facilities and terminals by the State under a Port Authority. Much would depend upon whether such facilities could be developed on a self sustaining basis. Several years ago I did examine this idea in a study and report about 1967 on a port authority for Southeastern Alaska. There have been so many changes in port developments in Southeastern since that time however that it may not be feasible.

Development of high voltage electric transmission grids for interconnecting major load centers and power generating stations can also be a self sustaining investment in some instances. I believe the Alaska Power Administration of the Department of Interior prepared a feasibility study of such a backbone grid interconnecting the Fairbanks-Anchorage areas.

These are just some ideas which obviously would need a very great deal of evaluation before it could be determined whether they are practical or not. But as I see it, the long term utilization and commitment of the fund is not a matter that can be rushed in any event.

Sincerely,



George L. Benesch

Enclosures

George L. Benesch
Attorney at Law

213 West Sixth Avenue, Suite 1
Anchorage, Alaska 99501

February 23, 1977

C
O
P
Y

The Honorable Jay Hammond
Governor of Alaska
Juneau, Alaska 99801

Subject: Use of the permanent fund for renewable
resource development

Dear Governor Jay:

Now that the idea of a permanent fund is an accomplished fact and the fund will soon be receiving substantial deposits, it essentially becomes a matter of prudent investment. As I understand it the idea of the permanent fund is to preserve for future generations some of the benefits of current development of non-renewable resources; and as a hedge against the time when such non-renewable resources are depleted. It seems to me that one excellent way of accomplishing these objectives would be to invest part of that money in the development of renewable resources such as construction of hydroelectric projects.

A case in point would be the construction of the Devil Canyon Project on the Susitna River. Assuming that it is still an economically viable project, I would suggest that the State fund and construct the entire project using the permanent fund as a source of revenue rather than funding the project with issuance of revenue bonds. This type of funding would provide the State immediate and direct and flexible control over the debt service and the repayment period.

I also believe that serious thought should be given to the State itself controlling and contracting for all project design and construction rather than leave these extremely important functions to the Corps of Engineers or some other federal agency. To begin with I think that significant cost savings could be effected. I believe that you will find that federally constructed projects like this generally cost significantly more than comparable projects constructed by private companies or local governments. Furthermore, I suspect we might find that with state funding of federal design and construction, we may be reimbursing the federal government for grossly excessive overhead and administrative costs which neither

the federal administration nor the Congress would be inclined to reduce.

I also believe that there would still be a need for a very substantial participation and review by the State of all phases of design and construction which would duplicate much of the same functions performed by the Corps.

Thirdly, if the State itself gets into the hydroelectric development effort, funded by the permanent fund, it can plan and schedule its own developmental programs rather than be subservient to the development programs proposed by the federal government to fit its convenience. For example, it may be possible to program such const action to boost the economy of the State in periods of economic slump.

As you are well aware, the cost and availability of electric power is very often a major consideration to industrial development. As a corollary, there is a tremendous lobby effort in Congress by other states seeking to attract industry by means of federal development of low cost energy resources. If Alaska is dependent upon federal hydroelectric developmental programs, even though funded by the State, we are nevertheless competing with other states for resource development by the Corps. We may very well find that the Corps development programs and efforts do not necessarily reflect the best interest of Alaska.

I believe that Alaska hire programs would also be significantly affected. If projects such as Devil Canyon are constructed by the federal government, Alaska may have little to say about employment preferences and hiring practices which meet federal requirements and priorities but not necessarily those of the State.

Lastly, I believe this project development could be accomplished much sooner, if desired, if the State designs and constructs the Devil Canyon Project. This could be a very important factor in the ultimate cost of power. I am certain we can expect all costs of design, construction, etc. to continue to increase annually. The Devil Canyon Project, for example, could probably have been built when first recommended to Congress in 1961 for less than half the current construction cost. This would be an additional advantage to using the permanent fund revenue for project development.

With proper maintenance and replacements of equipment as needed, hydroelectric projects such as Devil Canyon have a useful life well beyond 100 years. However, if the State goes to the bond market for construction funds, it may be necessary to gear the repayment period of the project to the term of the bonds; and of course, the cost of power is inversely related to the payout period -- the shorter the period, the higher the unit cost of power until such time as the project is fully paid for.

In my February 7 letter to you concerning the Alaska Power Authority, I indicated that I was forwarding under separate cover, a number of documents relating primarily to the Devil Canyon and Snettisham hydroelectric projects.

Since they are the only copies I have and would be impossible for me to replace, I must confess that I have not mailed them. I had thought I would be going to Juneau this month on other matters and would carry them with me. However, it now appears that I will not be taking the trip. Therefore, if practical, I would like to deliver the documents to your Anchorage office either for review there or to be hand carried to Juneau by someone from your office on their next trip to Juneau.

Sincerely yours,

George L. Benesch

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

POUCH D - JUNEAU 99811

March 14, 1977

Mr. George L. Benesch
Attorney
213 West Sixth Avenue
Suite 1
Anchorage, Alaska 99501

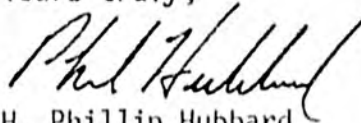
Dear Mr. Benesch:

Thank you for your recent letter to Governor Hammond concerning the use of the permanent fund for financing the construction of hydroelectric projects. You are quite correct in that the purpose of the permanent fund is to provide future benefits from present income. I can think of no better investment for our non-renewable income than to provide low cost efficient energy for future generations.

We also heartily concur on your observations concerning the costs of construction should the Corps of Engineers undertake a project of this magnitude. However, we are presently engaged with the Corps in determining the economic feasibility of the Susitna River project.

At the present, we anticipate having an organizational meeting of the Alaska Power Authority within the next few weeks. At that time, I shall notify you should you be interested in providing your personal documents relating to the Devil Canyon hydro project.

Yours truly,



H. Phillip Hubbard
Commissioner

HPH:lg 1/1

cc: Governor Jay S. Hammond

Alaska State Legislature

SPECIAL COMMITTEE ON
THE ALASKA PERMANENT FUND
(907) 276-3433

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. RICK URION

House of Representatives

December 23, 1977

George L. Benesch
213 West Sixth Avenue
Suite 1
Anchorage, AK 99501

Dear George:

Thank you for your letter of October 13 on possible uses of the Alaska Permanent Fund. I apologize for taking so long to answer.

The committee is in the process of preparing its Permanent Fund proposal and final report for the legislature. We also plan to circulate them for comment to those, such as yourself, who have shown an interest in the issue. We plan to hold public hearings on the committee's proposal after the session convenes, perhaps as early as late January.

With regard to your comments about power projects, the committee will be proposing the use of Permanent Fund earnings to provide guarantees for power project bonding by governmental agencies. Likewise, the committee is addressing a separate proposal on the Renewable Resources Development Fund, which should speak to your suggestions about financing for renewable resources.

Again, thank you for your interest and I hope that you will continue to be involved in the shaping of the Alaska Permanent Fund.

Cordially,

A handwritten signature in cursive script, appearing to read "Clark".
Clark Gruening
Chairman

CG:LAD

P.O. Box 381
Douglas, Alaska 99824
October 18, 1977

The Hon. Clark Gruening, Chairman
House Permanent Fund Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Representative Gruening:

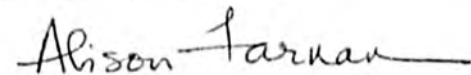
The Juneau-Douglas Branch of the American Association of University Women respectfully requests that the House Permanent Fund Committee consider allocating part of the permanent fund income for the support of cultural facilities throughout Alaska.

We must preserve Alaska's cultural heritage which is in danger of being lost due to the cultural and technological changes in the state; new arts resources must also be encouraged. Creative efforts of artists in Alaska should be promoted.

Cultural facilities will promote citizen awareness and participation in the arts and cultural enrichment on state and local levels.

Cultural enrichment should be a vital part of every Alaskan's education and way of life.

Sincerely,



Jan Hickey & Alison Farnan
Co-Presidents
American Association of
University Women
Juneau-Douglas Branch



PRINCE WILLIAM SOUND
AQUACULTURE CORPORATION

A regional non-profit organization for the enhancement of fisheries.

P.O. Box 1110
Cordova, Alaska 99574
(907) 424-3411

October 10, 1977

Representative Clark Gruening, Chairman
Special Committee On The Alaska Permanent Fund
528 W. 5th, Suite 270
Anchorage, AK 99501

Dear Representative Gruening:

Please send us copies of the two papers presented to
your committee by Arlon Tussing and Belden Daniels. *sent*
We would also appreciate receiving further information
on the progress of your committee.

In regard to your Permanent Fund Questionnaire, we have
not at this time developed a corporate position other
than our obvious desire to see Permanent Fund and Renew-
able Resource Fund dollars invested in aquaculture. We
are, of course, vitally interested in this subject, and
we do expect to provide you with additional input in the
near future.

We thank you for making this opportunity available to us.

Sincerely yours,

A. W. Hall

A. W. Hall
Business Manager

8601 Muir Court
Anchorage, AK 99504
October 12, 1977

The House Special Committee
on the Alaska Permanent Fund
528 West Fifth Avenue, Suite 270
Anchorage, Alaska 99501

sent

Gentlemen:

Please send me a copy of the two reports present before you on July 15 and 16, 1977. The titles of these reports are: "Economic Considerations in Establishment of Alaska's Permanent Fund" by Arlon Tussing; and "Thinking About the Alaska Permanent Fund: A Cautious Approach for Alaskan Policymakers" by Belden Daniels.

I would also appreciate receiving a copy of the appendix of the assumptions that is mentioned on page 6 of the booklet "The Role of the Permanent Fund in Alaska's Future" (assumptions pertaining to Figure 1, Revenue Projections through 1985).

Please send these items to me at the following address:

William M. Barstow
8601 Muir Court
Anchorage, AK 99504

Thank you.

Sincerely,

W M Barstow
W. M. Barstow

October 20, 1977

Legislative Office Agency
P.O. Box 3101
Juneau, Alaska 99801

Re: Permanent Fund Committee attention
Gentlemen:

The Alaska State Opera Presentation
respectfully requests your priority consideration
& affirmative action in funding cultural
activities for municipalities.

You can help us!

Thank you for your kind attention
to the request.

Sincerely,
James Hansen
President
Alaska State Opera
Presentation
301 Roberts Avenue
Juneau, Alaska 99801

P. O. Box 746
Juneau, Alaska 99802
November 17, 1977

Permanent Fund Committee
528 West 5th Avenue
Anchorage, Alaska 99501

Gentlemen:

Because I think it pertinent to your purpose, I should like to relate to you an incident which took place at the Constitutional Review held at the University of Alaska in Fairbanks in 1976, 20 years after the document was completed and ratified. Present on that occasion was John Bebout, who was a consultant at the Alaska Constitutional Convention.

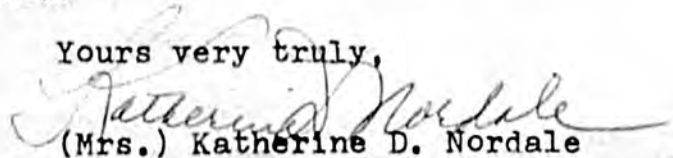
John Bebout is now retired, but he has long been regarded as an eminent authority on state government, including constitutional structure. He had assisted New Jersey, which was one of the first states to revise its constitution. After having served at the Alaska convention, he was called upon by several states to guide them in revision of their state constitutions. And by the way, the Alaska Constitution was used extensively as a model for reform. A provision in many state constitutions permitting the dedication of funds, or not specifically prohibiting it, had proved disastrous. Hence, the Alaska delegates became convinced that our new state should not fall into that error. However, it has done so through amendment.

I seized the opportunity in 1976 to ask John Bebout what he thought of the proposed constitutional amendment establishing the Permanent Fund. He replied immediately, "You are establishing a Fourth branch of government." It was a shock. The more one ponders his comment, the more one realizes that he voiced a very serious problem facing Alaska. Great power attaches to the control of so large a sum of money. Unless it is managed very carefully and vigilant scrutiny is exercised every step of the way, the people of Alaska may reap little benefit, but millionaires may be created to the detriment of the general welfare of Alaska.

I have no solution to suggest. I am only voicing my own fears and trusting that better heads than mine may be able to devise a way to safeguard the potential benefits, which should inure to the good of the state and its people.

It is obvious that amendments to the constitution are proposed without the exhaustive research which should precede their submission to the voters. The constitution is not a perfect document, but amendments should improve it, not erode its recognized excellence. You have my best wishes.

Yours very truly,


(Mrs.) Katherine D. Nordale

November 28, 1977

Katherine D. Nordale
P.O. Box 746
Juneau, AK 99802

Dear Katherine:

I very much appreciated receiving your comments on the Permanent Fund. A number of legislators, including myself, share your concern on the possibility that the Permanent Fund could become a "fourth branch of government."

There are a number of possible safeguards against this eventuality. Some of these safeguards already exist in the way the Permanent Fund constitutional amendment is structured.

The Permanent Fund is not based on any tax revenues but receives money only from the one-time sale of non-renewable resources. The constitutional dedication of 25 percent of only royalties and bonuses from the lease or sale of minerals will not place any tax revenues in the Permanent Fund. In terms of total revenues (taxes and proceeds from the sale of mineral resources), the Permanent Fund, unless the legislature decides to deposit a greater percentage of royalties, will contain less than 25 percent of the actual total revenues accruing to the State of Alaska.

Moreover, the Permanent Fund is not a fund dedicated for a specific purpose such as those found in New Jersey and many other states. The legislature will, under the Constitution, retain the power to specify those Permanent Fund investments eligible for Permanent Fund money. The Permanent Fund should be, therefore, more responsive to policy directives from elected officials than some of the dedicated funds in other states.

Nevertheless, the potential size of the Permanent Fund, although smaller than the General Fund, requires serious legislative examination of how the Fund will be managed and who will

Katherine D. Nordale

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manage it. In this regard, the House Permanent Fund Committee is considering draft legislation to recommend to the whole legislature which would establish a board of trustees for the Permanent Fund to be appointed by the Governor and confirmed by the legislature.

The trustees and their operations as managers of the Permanent Fund would be subject to conflict of interest law, regular audit and performance reporting and the Executive Budget Act. Bringing the board of trustees under the Executive Budget Act does require that the legislature approve the operating budget of the board.

Finally, the principal management goal, under the latest proposed draft, is that the trustees are to invest the Fund monies in such a way to bring the highest net return to the Fund consistent with the safety of the principal of the Fund. Any investments over a certain size will require legislative approval.

As the legislature provides a more detailed statutory framework for the Fund, I hope you will continue to raise pertinent questions and comment on the various proposals. When our proposed draft is completed (about December 15, 1977), I will send you a copy. Thank you for writing.

Cordially,



Rep. Clark Gruening
Chairman