

SCOMM

#9:49

#49

WHITE, WELD & CO.
INCORPORATED

ONE LIBERTY PLAZA
91 LIBERTY STREET, NEW YORK, N. Y. 10006

THEODORE P. SWICK
FIRST VICE PRESIDENT
212/285-2153

CABLE ADDRESS "WHITEWELD"

December 9th, 1977

Mr. Clark Gruening, Chairman
House Permanent Fund Committee

Since the House Special Committee on the Permanent Fund is in the final stages of structuring legislation for consideration by the 1978 legislature, it is time to consider the use of the income of this "Permanent Fund".

The provisions of the Permanent Fund Constitutional Amendment include that "the income from the Permanent Fund shall be deposited in the General Fund unless otherwise provided by law". According to the best estimates of the Department of Revenue, the minimum amount (25%) of the funds received as mineral lease rentals, royalties and other payments will result in an accumulation by 1985 of some \$1.8 billion. The investment income from that amount, at an average 7% rate of return, would produce approximately \$126,000,000 in any one year. As the Permanent Fund continues to grow, its increased capital will provide additional annual income in excess of the aforementioned figure, however, for the sake of perspective, the ensuing discussion will be confined to the \$126,000,000 projected income.

If the estimates are correct as to the principal accumulated in the Permanent Fund by 1985 at a 25% rate, the remaining balance accumulated in the General Fund should amount to some \$5.4 billion. The effect of the addition of \$126,000,000 to such an accumulation would increase the 1985 accumulation by approximately 2%. Such an increase is minimal in relation to a General Fund accumulation of the magnitude as anticipated.

Therefore, the income of the Permanent Fund should be dedicated to doing more than just adding a small increment to the General Fund. Even though it may eventually return to the Permanent Fund, it should be channeled into projects with revenue producing capability that provide benefits for the majority of Alaskans, and simultaneously allow for long-term financings at the lowest possible interest rate.

The House Special Committee, during the conduct of public hearings, has received many proposals for the use of Permanent Fund's income. Many of these proposals appear to be meritorious from numerous points of view. However, in turn, many of these same proposals would seem to be better responded to through

the actions of the legislature and addressed through the General Fund as opposed to the Permanent Fund's income.

Essential to the lifestyle of all modern societies is the availability of electric power. Advocates of no growth, modest growth, rapid growth or controlled growth all share a need for power. The availability of power often determines whether desirable economic growth can take place. The cost of such power is of course, an important element. All other things considered, the cost of power influences the future direction in any modern society.

Whether power generation occurs through capital-intensive projects (hydro-electric) or fuel-intensive projects (coal or gas-fired) its financing is generally through issuance of long-term debt. Production costs of hydro are generally stable since the fuel (water) costs are practically non-existent. Production costs of coal or gas-fired facilities are subject to continually escalating costs of the fuel necessary for the electric generation.

Long-term debt sold for the construction of either type of facility, without regard to the operation and maintenance expense of each, must be amortized through the service of debt; principal and interest payments annually until the debt is extinguished. The total cost of the debt service is affected by the rate of interest which investors demand for the long term loan of money.

A 40 year debt instrument in the amount of \$100,000,000, bearing an interest rate of 6½% will require a level debt service (principal and interest) of \$7,069,400 annually to liquidate the debt. If the interest rate is 5½%, the annual debt service requirement is \$6,232,000. This represents a difference of \$837,400 per year and over a 40 year period involves a saving of \$33,496,000.

Since debt service is a major factor in determining the rates users must pay for electric usage, the rate of interest at which a debt instrument is financed is a significant element in the total cost to the consumer. Bonds payable solely from the revenues of the utility are judged by investors on their credit-worthiness. The more credit-worthy, the lower the interest rate, the less credit-worthy, the higher the interest rate.

Alaska possesses many sites which are suitable for hydro-electric generating facilities. However, in some instances, these sites are not located near the population centers which require the power generated. Due to its topography, long-range transmission lines bringing power to the load-centers are often not feasible. In other instances, the best development of such capital-intensive projects may require large-scale projects which in the near-term, produce a surplus of power. Smaller scale generation facilities using coal or gas-fired power production are required in those areas without large load demands or without good potential hydro sites. The fact that the latter use a precious commodity which is non-renewable is not the point. If the power is needed, it must be produced. Nevertheless, if the project can be financed at a lower interest cost, a benefit will accrue to the user through a lower cost of service.

It is suggested that the future power needs of Alaskans can be delivered at a lower cost whether such power is provided through hydro or fossil fuels. The ability to affect the interest rate on whatever long-term project is financed, can accomplish this. The following paragraphs suggests how this can be done without depriving the Permanent Fund of other uses of its income.

The income from the Permanent Fund will be derived from "investment grade" securities and as such represents a highly reliable and secure cash flow. This annual cash flow can be dedicated to assuring that principal and interest requirements on bonds issued to construct revenue producing power projects are met in the event of a revenue short-fall from the revenue producing project. The effect will make it possible for the revenue bonds to receive a high credit rating and high evaluation in the market place which will result in a significantly lower cost of borrowing for the project construction. At the end of a given period, (debt service year or monthly), income from the Permanent Fund dedicated to the revenue bonds debt service requirements not needed is released to the General Fund or for any other purpose directed by law.

The dedication of Permanent Fund income to revenue bond debt service would not be accomplished in the legislation itself, but rather in a "guarantee agreement" between the Permanent Fund and the entity issuing the revenue bonds and the "guarantee agreement" would actually appear on the face of the debt instrument. From the investor and rating agency point of view, if the guarantee is in the legislation it is legally subject to change by succeeding legislatures. If the guarantee is in an agreement as part of the revenue bond issue it is dedicated for as long as the bonds are outstanding.

It must be assumed for the purpose of this guarantee arrangement that the Permanent Fund will receive 25% of the oil and gas income because of the terms of the Constitutional Amendment. Based on that assumption, estimates (by the State) of the size of the Permanent Fund in 1985 will be \$1,800,000,000.

A reasonable assumption of 7% income from investment produces an annual cash flow available for guarantees of \$126,000,000. An annual cash flow of this magnitude, assuming a 6% interest cost on guaranteed bond issues, will support approximately \$1,800,000,000 of bonds.

The various projects to be supported by the guarantee would be financed by revenue bonds of any state agency or any subdivision of government in Alaska for electric generation and transmission. Each bond issue would capitalize interest during construction and fund its own debt service reserve to conform to the demands of the market for such bonds at the time of financing.

The act providing for a guarantee should be broad in form. The covenants relating to, and provisions of, each project will be structured into each bond issue.

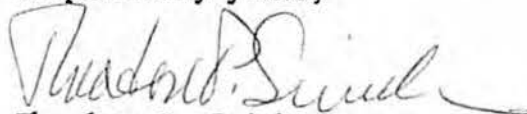
There might be some merit in including in the act certain findings and directives to the Board of the Permanent Fund, but it probably is more appropriate for the Board to outline its own guidelines as it relates to such guarantee on bonds of projects to be financed in its administrative rules and regulations. By this is meant, for example, considerations by the legislature in its deliberations leading to the approval of a project such as economic need, economic feasibility, geographic locations, social benefit, impact on locality, etc.

A draft of a bill has been provided to your committee which would, subject to redraft to conform to custom, constitutional requirements, the Permanent Fund Act and language usage in Alaska, creates the mechanism for such a debt guarantee program. A brief analysis of this draft follows.

- Section 1. Creates the mechanism by authorizing the Board of the Permanent Fund to enter into guarantee agreements. Limits the guarantee to income only. Provides for agreements with any entity of state or local government. Provides guarantee of principal payments, sinking fund payments and interest but prevents use of Permanent Fund income for optional early retirement of guaranteed debt. Limits the guarantee to electric generation and transmission. Leaves the details of guarantee agreements to the Board of Trustees.
- Section 2. In effect limits the amount of debt that can be guaranteed. This adds to the credit-worthiness of the guarantee from the lenders point of view. Depending somewhat on the actual portfolio of investments in the Permanent Fund, it is important to consider whether or not to limit the total of guarantees to something less than 100% of the Fund income. This could be done in the Act, which does not happen in this draft, or it could be a policy matter of the Board of the Fund.
- Section 3. Provides that the guarantee article appear on the debt instrument which clearly establishes that it survives as long as the bonds are outstanding. This definitely is stronger and distinguishes the guarantee from any similarity to the so called "moral-obligation" pledge.
- Section 4. Provides that a guarantee agreement can be entered into on the debt of projects only after approval by the legislature. Part of the thrust of this section is in contemplation of a centrally controlled State-wide power development plan that considers the needs and best interest of all of Alaska.
- Sections 5 & 6 These sections are simply "boiler-plate" provisions.

The draft bill clearly does not contemplate any subsidy of electric costs to energy consumers. However, there is no prohibition that any subsidy to energy users deemed to be appropriate by the State can be accomplished by the legislature through appropriation from the General Fund or other sources which would not interfere with the value of this guarantee program to finance the capital costs of meeting the power needs of Alaska.

Respectfully yours,



Theodore P. Swick

TPS/vmr

#49

BOSTON
CHICAGO
ATLANTA
DALLAS
HARTFORD
LOS ANGELES
MINNEAPOLIS
NEW HAVEN

WHITE, WELD & CO.
INCORPORATED
ONE BUSH STREET, SAN FRANCISCO, CALIF. 94104
TELEPHONE (415) 981-1077

NEW YORK
PHILADELPHIA

LONDON
PARIS
ZURICH
CARACAS
GENEVA
HONG KONG
MONTEVIDEO
MONTREAL

August 20, 1976

Sterling Gallagher
Commissioner
Department of Revenue
Pouch S
Juneau, Alaska 99811

Senator Jalmar M. Kerttula
Alaska State Legislature
Box Z
Palmer, Alaska 99645

Representative Hugh Malone
Alaska State Legislature
Box 9
Kenai, Alaska 99611

Gentlemen:

This letter is for the purpose of presenting certain summary information for the first meeting of the expanded State Investment Advisory Committee in Anchorage on August 26, 1976.

Our firm has been retained by the State Investment Advisory Committee through Commissioner Sterling Gallagher, Department of Revenue, to provide consulting services concerning the establishment and operation of a Permanent Fund for the State of Alaska. Specifically, for this initial meeting, we have been asked to (I) outline the possible uses and advantages of the tax exempt financing privilege that could be available to the Permanent Fund, and (II) summarize our review to date of similar funds in other states and countries.

- (I) Outline of Possible Uses and Advantages of Tax Exempt Financing Privilege for the Permanent Fund

Once the Permanent Fund has been established, the legislature may create a variety of structures to facilitate taking advantage of the tax exempt privilege enjoyed by state and local government in the United States to finance public purpose projects within the limitations of federal, state and local statutes and regulations. Examples of public purpose projects which are traditionally financed in this manner are: (a) housing construction and rehabilitation; (b) educational facilities; (c) airports, harbors, highways and other transportation facilities; (d) power generation, transmission and distribution; (e) public recreational facilities; (f) pollution control and solid waste disposal and resource recovery facilities; (h) hospitals and health care facilities; (i) industrial development; (j) water and sewer facilities.

Tax exempt bonds are of two basic kinds: (1) tax supported and (2) user-pay. The first is used to provide non-revenue producing public services which are supported by the general taxing power of local government and the second are revenue producing projects that can be self supporting from income derived from charges to those who use the facilities. Briefly the bond purchaser, or lenders of money, look to the prospects of repayment of their loaned funds plus a fee, or interest rate, for the use of their money and the calculated risk they assume in making the loan, i.e., buying the bonds. The less the risk the lower interest rate they are willing to accept.

The principal role the Permanent Fund can play is in assisting the State of Alaska in providing services for its citizens as well as stimulating economic expansion and diversification and developing natural resources. Once the needs of the State have been studied and defined and political priorities have been established, the assets of the Permanent Fund can be used in a great variety of ways and combination of ways within the structure of the tax exempt market to maximize its effectiveness and impact on solving the needs of Alaska and achieving its economic goals.

Briefly stated, some of the opportunities are: 1) direct guarantee of debt, 2) make-up of revenue short-fall, 3) loans to projects or political subdivisions, 4) combination financing with public utilities or private industry, 5) industrial development financing, 6) pledge of specific assets and/or income of the Fund for certain projects and 7) others. We envision our role in the future as working with others on the task force to accomplish the defined goals by exploring and adopting traditional techniques and devising possible innovative combinations or new techniques which will maximize the effectiveness of the Permanent Fund.

(II) Summarization of Our Review to Date of Similar Funds in Other States and Countries

Alberta Heritage Savings Trust Fund

This fund appears to be the most closely related, of any so far investigated, to what we understand to be the purpose, goals and source of capital of the Alaska Permanent Fund.

The purpose of the Trust Fund is stated to be the setting aside of certain revenues accruing to the Provincial Government from the sale of non-renewable natural resources in a separate trust fund rather than in the General Revenues of the Government. Such trust funds are not to be utilized for normal operating and capital budgetary requirements, but are to be set aside for investment to assure that future generations of Albertans may have a better opportunity to sustain the same level of prosperity and benefits being enjoyed by present citizens.

The goals and objectives of the Trust Fund include the utilization of funds in investments which will help to create more and better jobs through a more diversified economy, less reliant on the sale of depleting resources. Further goals are to improve and sustain the quality of life within Alberta in the future and to earn interest and dividends to strive to maintain low personal taxation.

Further guidelines for the Trust Fund are that its resources should be invested with a minimum of interference with private sector activity and any investments should not unduly disrupt existing financial institutions. In addition it is planned that most investments will be made within Alberta and only normal commercial or money market investments will be committed outside the Province.

Legislation creating the Trust Fund was enacted May 19, 1976 and there is presently being transferred total assets of \$1,500,000,000 from the General Revenue Fund of the Province to the Heritage Saving Trust Fund. This sum is composed of previously accrued royalty payments through the end of the 1975-76 fiscal year. No investments have as yet been made by the Trust Fund. The Trust Fund is administered by an investment committee made up of all members of the Executive Council of the Province. The Executive Council consists of the cabinet level appointees of the Governor.

Thirty percent of non-renewable resource revenue received in each fiscal year is to be transferred from the General Revenue Fund to the Trust Fund but only if the transfer is authorized by a Special Act enacted by the legislature in the preceding fiscal year.

The assets of the Trust Fund shall be used for the following purposes:

- a) Investments in projects which will provide long-term economic or social benefits to the people of Alberta but which will not, by their nature, yield a return to the Trust Fund.
- b) Investments by way of loans to:
 - (i) The Canadian Government
 - (ii) Any other Province of Canada
 - (iii) Any other person, if the repayment of the loan and the payment of the interest thereon is guaranteed by the Canadian Government or any Provincial Government of Canada.
- c) Investments which, in the opinion of the Investment Committee or in the opinion of the Legislative Assembly as expressed in a resolution of the Assembly:
 - (i) will yield a reasonable return or profit to the Trust Fund, and
 - (ii) will tend to strengthen and diversify the economy of Alberta.

Investments referred to in subsection (a) shall only be made if moneys are first appropriated from the Trust Fund by an Act of the Legislature specifically for a purpose described in subsection (a) and these investments shall not exceed 20 percent of the assets of the Trust Fund.

Investments referred to in subsection (b) shall be made or approved by the Investment Committee in accordance with directions contained in any resolution of the Legislative Assembly and these investments shall not exceed 15 percent of the assets of the Trust Fund.

Investments referred to in subsection (c) shall be made or approved by the Investment Committee in accordance with directions contained in any resolution of the Legislative Assembly.

The Legislature retains control of the Trust Fund in several ways as can be seen in the above listed criteria and restrictions. All funds are held and administered by the Provincial Treasurer. The Provincial Auditor is required to audit the Trust Fund at least once each year.

Government Development Bank for Puerto Rico

We have not as yet reviewed the operation and structure of the Government Development Bank for Puerto Rico (GDB) in as much depth as the Alberta Heritage Savings Trust Fund because it did not appear to us that there would be sufficient similarity to the operation and structure of the Alaska Permanent Fund. The only source of capital available to GDB is borrowing in the public or private money market.

GDB is an instrumentality and public corporation of the Commonwealth of Puerto Rico. It was created in 1948. The GDB charter provides for its perpetual existence and no amendment to this Charter or any law of the Commonwealth shall impair any outstanding obligations or commitments of GDB. The Development Bank was created as an industrial development bank. The governing body is a 7-member Board of Directors who serve 4-year overlapping terms. The Board is appointed by the Governor with approval of the Council of Secretaries (equivalent to the Cabinet of the Executive Branch). GDB is exempt from budgetary controls of the Executive Branch of the Commonwealth and from provisions of Puerto Rico Banking Law. GDB is, however, subject to supervision and examination by the Commonwealth's Secretary of the Treasury.

GDB serves primarily as fiscal agent for the Commonwealth and its various public agencies. As fiscal agent, GDB is responsible for the timing and sale of bonds and notes by the Commonwealth and its agencies. There is no limit to the amount of debt that can be issued by GDB which is not guaranteed by the Commonwealth. Debt which does carry this guarantee is limited to \$450 million. The limit was raised from \$300 million in May, 1976.

From its inception through the 1975-76 fiscal year, GDB had arranged or provided for nearly \$11 billion of borrowing by various governmental units. GDB also arranges or provides loans for the private sector. As of 6/30/75 GDB has reportedly disbursed over \$337 million in such loans (approximately 47% for manufacturing, 22% for commercial buildings, and 6% for hotels). As of 6/30/76 there were \$165.4 million business loans outstanding (45% industrial, 14% commercial buildings, 3.6% hotels). The Bank also issues its

own full faith and credit notes. As of 6/30/75, these amounted to \$40 million issued to major mainland and Puerto Rican Banks. On 9/11/75 GDB negotiated a \$612 million note purchase agreement (guaranteed by the Commonwealth) with major mainland and Commonwealth Banks to provide a revolving line of credit for the Commonwealth and its public agencies.

In June, 1974 a subsidiary of GDB, Government Investment Company of Puerto Rico was formed to provide venture capital for economic development. The total amount of such capital provided to date is \$2,600,000

Pennsylvania Industrial Development Authority

The Authority was created in 1956 for the purpose of making loans through local industrial development agencies for industrial development in areas of high unemployment. Such areas are determined solely by the Authority. Historically, the Authority's primary source of funds for these loans were appropriations from the State of Pennsylvania General Fund and income received from payments on outstanding loans. In 1973 the Authority was authorized to issue tax exempt revenue bonds (primarily secured by earnings of its loan portfolio) to finance its loan programs. To date the Authority has sold two bond issues totaling \$70 million. From 1956 through 1975 some \$350 million of industrial loans have been made by the Authority for some 1300 different projects which had a total estimated development cost of over \$987 million and have reportedly provided some 166,000 new jobs within the state. The primary ingredient for success of this program is that the rate of interest charged by the Authority on these loans has been significantly below prevailing commercial loan rates.

Perhaps a portion of the proposed Alaska Permanent Fund could be designated to initiate a similar program. Properly administered, such a program could become self-supporting and require no additional capital outlays from the Permanent Fund.

University of Texas, Permanent University Fund

The Permanent University Fund of Texas came into existence in the nineteenth century by certain acts of the Republic of Texas and later was re-organized and perpetuated by constitutional provisions by the State of Texas. Its assets are now 2,100,000 acres of land in several western counties in the State. Practically all of the acreage is under grazing leases which create income in excess of

\$1 million per year. In addition, the proceeds from sale of leases for oil and gas exploration and extraction become part of the Fund. State Supreme Court decisions and opinions of the Attorney General of the State decree that the Permanent University Fund shall be kept forever intact. The assets of the fund may be invested in certain securities, the earned income of which may be used to secure loans for capital construction of University facilities.

Permanent University Fund tax exempt bonds are secured by covenants which require (1) that assets of the Fund equal in amount to bonds outstanding will be invested in direct U.S. Government Obligations, (2) that the income from said U.S. Obligations equal at least the maximum annual interest payments of the bonds, and (3) that the entire income of invested funds equal at least 1½ times the maximum debt service requirements on all outstanding bonds. In addition, total bonds may be issued only in amounts not to exceed 20 percent of the total assets of the Fund. Income is defined as net proceeds after Fund management expenses which may never exceed 1/5 of 1% of the value of the Fund.

We have initiated research on several economic development funds that exist throughout the world and will report on them at a later date. We refer to such areas as the World Bank, foreign aid activities of the U.S. State Department, Saudi Arabia, etc.

We have also contacted appropriate officials in the Province of British Columbia to investigate any such development funds they may have created. We were informed that no such funds have been created or are presently contemplated. The Provincial Government has been subsidizing some public and private ventures from general fund revenues. These have been mainly railroads, ferrys and high-ways.

This summary of White, Weld's efforts to date in reviewing existing funds and development authorities which may be of interest to the Alaska State Investment Advisory Committee with regard to the creation of the Alaska Permanent Fund is not intended to be a complete and final analysis of all possible areas of interest. It is presented to inform the Committee of our progress to date and to stimulate comment and discussion. We would expect to proceed with further investigations into other possible areas of interest and to investigate in more depth some of the areas already discussed.

We look forward to working closely with the Committee on this important and interesting assignment in whatever capacities we agree would be mutually beneficial.

Sincerely,

KR Butler

Kenneth R. Butler, Vice President
Western Regional Manager
Municipal Bonds

KRB:yg

cc: ✓ James B. Rhode
Agent for the Commissioner
943 West Sixth Avenue
Suite 30
Anchorage, Alaska 99501

Bob Richards
Senior Vice President
Alaska Pacific Bank
Box 420
Anchorage, Alaska 99510

WHITE, WELD & CO.
INCORPORATED
ONE BUSH STREET, SAN FRANCISCO, CALIF. 94104
TELEPHONE: (415) 981-1077

This memorandum is a summary of significant concepts brought out during a meeting requested by White, Weld & Co. with Moody's Investors Services held on Monday, August 23, 1976, at White, Weld & Co. offices in New York.

The purpose of the meeting was to discuss the proposed creation of an Alaska Permanent Fund and the impact of creating such a fund on the rating agencies perceptions of Alaska.

In attendance from Moody's were Claire Cohen, Vice President and permanent member of the rating committee and Bill Bunce, oil company analyst.

Summary of Concepts Discussed:

- (1) Permanent Fund vs. Development Fund. Is the name properly descriptive? The investment community has prior definitions of these terms.
- (2) Financing of General Fund deficits from non-renewable resource revenues is of strong concern to them.
- (3) Alaska has large capital needs. Formation of Development Fund to coordinate and direct the raising of this capital looked on as positive step.
- (4) Heavy demands and pressure for immediate assistance from Permanent Fund almost a certainty. Assigning priorities and criteria will be difficult but crucial as far as Moody's is concerned.
- (5) Cannot comment specifically on effect of Permanent Fund on ratings, borrowing capacity, etc. until more details of structure and operation are known.
- (6) Would like to work closely and be kept informed in timely manner concerning developments.

Kenneth R. Butler
August 23, 1976

Alaska State Legislature

file

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

May 3, 1978

Mr. Ted Swick
Senior Vice-President
White, Weld & Co.
One Liberty Plaza
91 Liberty Street
New York, New York 10006

Dear Ted:

Good to see you and Sam again last week. In line with our conversation of April 28, would you please supply our Committee with a memorandum covering the questions we discussed concerning SB 429. Hopefully, you can send us your comments as soon as possible on the following topics:

- 1) The legality and/or workability of the arbitrage mechanism envisioned in SB 429, i.e. the one percent "service fee for administrative costs" over the cost of borrowing to the Alaska Loan Program.
- 2) The legality of the use of tax-exempt borrowing under present statutory and Treasury restrictions for the purposes of the Alaska Loan Program in SB 429.
- 3) The likely reaction of bond market investors to packages of tax exempt bonds which aggregate mixed purpose issues as envisioned in the Alaska Loan Program. (Sec.45.96.030 of SB 429).
- 4) The likely impact on the credit rating of the State of Alaska of aggregating the various existing public purpose issuing agencies into one blanket issuer, the Alaska Loan Program.

Mr. Ted Swick

-2-

May 3, 1978

5) The relative strengths or weaknesses of CSHB 596 (Finance) and SB 429 in insuring the safety of the Permanent Fund principal.

6) Any other matters in your area of expertise relating to the two bills which you would like to bring to the attention of the Committee.

At the moment I am unable to say when hearings of the free conference committee on the Permanent Fund will begin but testimony on these issues may be required sometime during the week of May 15, 1978. I would like to arrange a conference call with you for sometime between May 11 and May 15 to discuss your response to these issues. Any expenses you incur in responding to this inquiry will be approved from the Committee's funds.

Cordially,

Representative Clark Gruening

CG:jl

A BILL

For an act entitled: An Act providing for guarantees payable from certain income derived from the Alaska Permanent Fund of indebtedness issued by governmental agencies of the State for power projects.

Section 1. Subject to the approval by the legislature as provided in Section 4 hereof, the board of trustees of the Alaska Permanent Fund is hereby authorized to enter into agreements with any public authority of this State or any borough or other governmental agencies of this State, providing for a guarantee, payable solely from the income derived from the Alaska Permanent Fund established by AS (other than income derived from the Alaska Enterprise Development Fund established by AS) of the payment when due, whether at maturity or by sinking fund redemption but not by acceleration of maturity, of the principal of and interest on bonds, notes or other indebtedness of such governmental agencies issued to finance a project or projects for construction of electric generating and related transmission facilities. Such agreements shall contain such terms, provisions and covenants in furtherance of the purposes of this act as said board of trustees shall determine.

Section 2. No bonds, notes or other indebtedness shall be guaranteed pursuant to this act unless said board of trustees shall determine that the debt service for any year with respect to all such bonds, notes and other indebtedness will not exceed the amount of annual income estimated by such board of trustees to be derived during such year from said Alaska Permanent Fund (other than income from said Alaska Enterprise Development Fund). Such determination shall be made by resolution of said board of trustees prior to the execution of any guarantee agreement pursuant to this act.

Section 3. Any bonds, notes or other indebtedness guaranteed pursuant to the act shall have on the face thereof an endorsement of such guarantee by the chairman of said board of trustees or any designee of such officer.

Section 4. No bonds, notes or other indebtedness shall be guaranteed by said board of trustees pursuant to the act until the facilities to be financed with the proceeds of such bonds, notes or other indebtedness have been approved by a joint resolution of the legislature.

Section 5. If any term or provision of this act shall be declared unconstitutional or ineffective in whole or in part by a court of competent jurisdiction, then to the extent that it is not unconstitutional or ineffective such term or provision shall be enforced and effectuated, nor shall such determination be deemed to invalidate the remaining terms or provisions hereof.

Section 6. This act shall take effect immediately.

49

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

May 3, 1978

Mr. Ted Swick
Senior Vice-President
White, Weld & Co.
One Liberty Plaza
91 Liberty Street
New York, New York 10006

Dear Ted:

Good to see you and Sam again last week. In line with our conversation of April 28, would you please supply our Committee with a memorandum covering the questions we discussed concerning SB 429. Hopefully, you can send us your comments as soon as possible on the following topics:

- 1) The legality and/or workability of the arbitrage mechanism envisioned in SB 429, i.e. the one percent "service fee for administrative costs" over the cost of borrowing to the Alaska Loan Program.
- 2) The legality of the use of tax-exempt borrowing under present statutory and Treasury restrictions for the purposes of the Alaska Loan Program in SB 429.
- 3) The likely reaction of bond market investors to packages of tax exempt bonds which aggregate mixed purpose issues as envisioned in the Alaska Loan Program. (Sec.45.96.030 of SB 429).
- 4) The likely impact on the credit rating of the State of Alaska of aggregating the various existing public purpose issuing agencies into one blanket issuer, the Alaska Loan Program.

Mr. Ted Swick

-2-

May 3, 1978

5) The relative strengths or weaknesses of CSHB 596 (Finance) and SB 429 in insuring the safety of the Permanent Fund principal.

6) Any other matters in your area of expertise relating to the two bills which you would like to bring to the attention of the Committee.

At the moment I am unable to say when hearings of the free conference committee on the Permanent Fund will begin but testimony on these issues may be required sometime during the week of May 15, 1978. I would like to arrange a conference call with you for sometime between May 11 and May 15 to discuss your response to these issues. Any expenses you incur in responding to this inquiry will be approved from the Committee's funds.

Cordially,

Representative Clark Gruening

CG:jl

WHITE, WELD & CO.
INCORPORATED

ONE LIBERTY PLAZA
11 LIBERTY STREET, NEW YORK, N. Y. 10006

CHARLES J. FUHRMANN II
FIRST VICE PRESIDENT
212 / 285-2388

CABLE ADDRESS: "WHITEWELD"

October 1, 1976

Alaska State Investment Advisory Committee
State of Alaska

Dear Committee Member:

In accordance with your request, we have undertaken a survey of domestic, foreign and international development banks, funds and development programs for your use in determining the future structure and objectives of the Alaska Permanent Fund. In performing our survey, we have selected those banks, funds or development programs which are of major importance, as well as those which are particularly relevant to Alaska's situation in that they are either based upon natural resource revenues or confined to a limited geographic area.

Our analysis of domestic permanent funds focused on those states which received income from a finite natural resource and the manner in which that income was expended. The majority of states receiving income from finite natural resources spend that income on a current basis. Those states and the application of income are set forth in tabulation form. States which accumulate natural resource income in a trust fund are set forth individually.

Each state has created programs to assist and encourage economic developments. A description of the Government Development Bank of Puerto Rico and the Pennsylvania Industrial Development Authority has been included in this study. A summary of state general assistance, incentives and special services to industry has also been included. In depth information on each particular economic development program has been requested from each state's development agency and will be sent along, as received, to Mr. Edenso for inclusion in the source file of all background information we are putting together for the Committee.

Substantially all of the less developed nations of the world, and a certain number of the more developed nations, have government owned or controlled entities whose purpose is to participate in the financing of local economic development projects. In most of the small nations, these entities

Alaska State Development
Advisory Committee

October 1, 1976

function principally as the vehicle through which development funds are dispersed to the economy by the government and are consequently heavily involved in the internal political process. In many cases, these entities also act as the conduit through which development funds provided by the larger international development banks and funds are invested in smaller projects in the country concerned. One of the advantages of the latter process is that the use of the local bank as a vehicle permits the larger institution's loan to receive a government guarantee, which is commonly a prerequisite for the extension, or the initial extension, of credit to the country. In most countries, the development banks and funds that perform the above functions also serve as the means through which internal economic growth is directed and channeled in accordance with national economic policies and are, in effect, extensions of the local economic ministry.

The institutions covered by our survey which fall into this category are the Swedish Investment Bank, Japan Development Bank and National Financiera S. A. (Mexico). All of these entities are government owned institutions which both borrow funds in various capital markets and lend domestically for development purposes. In each case, the institutions are responsible for carrying out national economic policy through their activities and enjoy various degrees of autonomy from the national political process. The most independent is the Swedish Investment Bank and the least is National Financiera S. A. Both National Financiera and Japan Development Bank appear to be heavily involved in the political process in their respective countries, and the former has acted as a conduit for World Bank lending in Mexico.

The larger development banks and funds are international institutions whose memberships consist of several countries and whose purpose is to foster the economic growth and development of a particular region or its members. In general, these entities represent potent world-scale economic forces and tend to be both non-political and commercial in their operations. The financial strength of these entities is typically based on the uncalled capital subscriptions of their members, and virtually all of them borrow heavily, both locally and in the international capital markets. Substantially all of the activities of these institutions consist of direct lending for specific projects in the various countries, and lending policies appear to be determined on social benefit as well as economic grounds. As a result, and to the extent that many major industrial nations are commonly among the larger contributing members of these institutions and receive no benefits, they can be viewed as quasi "foreign aid" banks.

Among such international and regional development institutions covered by our survey, the most significant is the International Bank for Reconstruction and Development (World Bank), both in terms of its worldwide membership and the international scope and significance of its lending activities. Importantly, all of the other international institutions included in our review (Inter-American Development Bank, Asian Development Bank and African Development Bank)

Alaska State Development
Advisory Committee

October 1, 1976

have been created with the assistance of, or modeled after, the World Bank, both operationally and in financial structure. Of these three derivative institutions, only the African Development Bank is not a significant international borrower and depends heavily on loans from other institutions, such as the World Bank. This characteristic results from the fact that its uncalled capital funds are to be provided by countries that are not viewed as being particularly strong by the world capital markets and that a significant private capital market in black Africa does not exist. Two other institutions which fall somewhat into this category in that their activities are regionalized are the European Investment Bank and the European Coal and Steel Community, both of which are related to the European Economic Community (Common Market). Significantly, while both borrow in various capital markets and re-lend for projects consistent with their purpose, the credit strength of the European Coal and Steel Community is based fundamentally on the strength of the private steel industry in Europe. European Investment Bank is modeled along the lines of the World Bank and depends on the credit of the various EEC member states.

The remaining type of institution is one which functions in a limited geographic area or within a particular industry to promote economic growth and development or to achieve a social objective and is based on local or regional resources. Of the three basic groups of international development institutions, this group contains the smallest number of entities and is, perhaps, the most analogous to the situation in Alaska. These development institutions or funds are new and, to a large degree, based on natural resource revenue. Significantly, only two are international in scope; others are modeled after the World Bank but limited in their activities to a defined geographic region, ethnic grouping or social purpose. The remainder are "national" investment funds. The majority of these funds are based in the Middle East and dependent upon oil related revenues. Those that have an international scope are the Saudi Development Fund and the Arab Bank for Economic Development in Africa, both of which were created after the increase in world oil prices in recognition of the balance of payments and development problems created in the developing states by such increase. The remaining funds (Arab Fund for Economic and Social Development, Abu Dhabi Fund for Arab Economic Development, the Islamic Development Bank and the Kuwait Fund for Arab Economic Development), although created at approximately the same time, reflect in both the source of their capital (member states' subscriptions or allocation of national revenues) and their purposes the Arab nationalism which emerged after the Mid-East wars. Importantly, most of these funds have yet to become fully operational, and it is too early to judge their potential significance. The two "national" investment funds, the two which you may find are the most directly related to the proposed Alaska Permanent Fund, are the Fondo de Inversiones de Venezuela and the Alberta Heritage Savings Trust Fund. The similarities extend to both source and purpose, as can be seen in the studies included herewith.

Alaska State Development
Advisory Committee

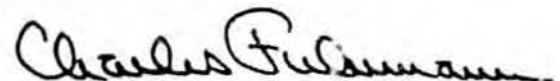
October 1, 1976

It is premature to recommend to the Committee certain key features of any one of these banks, funds or development programs over the others until it has had a chance to digest the information in our survey and to review the source file we are also providing. We are available to detail the differences as we see them and to discuss other alternatives available to Alaska.

Following the Committee's meeting on October 13, which we will be attending, we will want to sponsor visits by Committee members at least to Alberta to meet with their Heritage Savings Trust Fund counterparts. Visits to New Mexico and to New York would also appear advisable.

We look forward to our next meeting in Anchorage.

Sincerely yours,



Charles J. Fuhrmann II
First Vice President

CJF:yu
Attachment

TABLE OF CONTENTS

- I Domestic Permanent Funds
- Montana Resource Indemnity Fund
 - New Mexico State Permanent Fund
 - New Mexico Severance Tax Bonding Fund
 - New Mexico Severance Tax Permanent Fund
 - New Mexico Severance Tax Income Fund
 - Texas Permanent University Fund
 - Wyoming University Permanent Land Fund
 - Wyoming Permanent Mineral Trust Fund
 - Wyoming Government Royalties Fund
 - Summary of Certain Other States
- II Domestic Economic Development Programs
- The Government Development Bank of Puerto Rico
 - The Pennsylvania Industrial Development Authority
 - Summary of States' General Assistance, Incentives and Special Service to Industry
- III National Institutions
- Swedish Investment Bank Ltd.
 - Japan Development Bank
 - National Financiera S.A.
- IV International and Regional Development Institutions
- International Bank for Reconstruction and Development (World Bank)
 - Inter-American Development Bank
 - Asian Development Bank
 - African Development Bank
 - European Investment Bank
 - European Coal and Steel Community
- V Natural Resource Related Institutions
- Saudi Development Fund
 - Arab Bank for Economic Development in Africa
 - Arab Fund for Economic and Social Development
 - Abu Dhabi Fund for Arab Economic Development
 - Islamic Development Bank
 - Kuwait Fund for Arab Economic Development
 - Fondo de Inversiones de Venezuela
 - Alberta Heritage Savings Trust Fund

Exhibit I

Institution: (Montana) Resource Indemnity Fund
created in 1974

Location: Helena, Montana

Size:

Capital Funds: \$4.5 million

Purpose: The Resource Indemnity Fund was created to accumulate income from a Severance Tax on Coal and other minerals for the purpose of providing moneys to enhance the State ecological environment and rectify damage thereto. Accumulations in the Fund shall continue until the Fund reaches \$100 million.

Source of Funds: Moneys are deposited in the Fund from a severance tax on various minerals and $2\frac{1}{2}\%$ of the Severance Tax on Coal.

Management Structure: Moneys are collected and deposited in the Fund by the Department of Revenue. Investments in the Fund are made in accordance with guidelines established by the State Board of Investments which is composed of five private citizens appointed by the Governor for 5 year terms.

Management of Funds: Moneys are invested in debt instruments authorized by State Statutes.

Portfolio: Moneys are currently invested in corporate bonds that have been rated A or better by Moody's Investors Service and Standard & Poor's Corporation.

Income: Income from investments remain in the Fund until \$10 million has been accumulated. After the accumulation of \$10 million, income may be used for enhancement or repair of the environment.

Institution: (Montana) Resource Indemnity Fund
created in 1974

Location: Helena, Montana

Size:

Capital Funds: \$4.5 million

Purpose: The Resource Indemnity Fund was created to accumulate income from a Severance Tax on Coal and other minerals for the purpose of providing moneys to enhance the State ecological environment and rectify damage thereto. Accumulations in the Fund shall continue until the Fund reaches \$100 million.

Source of Funds: Moneys are deposited in the Fund from a severance tax on various minerals and $2\frac{1}{2}\%$ of the Severance Tax on Coal.

Management Structure: Moneys are collected and deposited in the Fund by the Department of Revenue. Investments in the Fund are made in accordance with guidelines established by the State Board of Investments which is composed of five private citizens appointed by the Governor for 5 year terms.

Management of Funds: Moneys are invested in debt instruments authorized by State Statutes.

Portfolio: Moneys are currently invested in corporate bonds that have been rated A or better by Moody's Investors Service and Standard & Poor's Corporation.

Income: Income from investments remain in the Fund until \$10 million has been accumulated. After the accumulation of \$10 million, income may be used for enhancement or repair of the environment.

Institution: (New Mexico) State Permanent Fund
created in 1898

Location: Santa Fe, New Mexico

Size:

Assets: 10 million acres
Capital Funds: \$675 million

Purpose: The State Permanent Fund was established to collect royalties and other income from the lease of State-owned land. Income from the Fund is applied to the New Mexico public school systems and educational and eleemosynary institutions.

Source of Funds: Moneys in the Fund were initially provided from the sale of State land. Currently, revenues to the Fund are provided from royalties and income from State-owned lands under lease. Such revenues include oil and gas royalties and grazing and timber leases. In addition, any capital gains on investments remain in the Fund.

Management Structure: The State Permanent Fund is managed by the State Investment Council. Members of the Council include the Governor, the State Treasurer, the Commissioner of Public Lands, the Finance Officer and four public members who are appointed by the Governor for terms of five years.

Management of Funds: The State Investment Officer is responsible for investing moneys in the State Permanent Fund. Fifty per cent of the Fund must be invested in Federal Securities. The remainder may be invested according to State Statutes.

Portfolio: The Fund is currently invested as follows: 18% equity, 32% corporate obligations and 50% U.S. Government and Federal Agency Obligations.

Income: Income from the Fund is distributed to the public school system (80%) and the remainder to educational and eleemosynary institutions.

Institution: (New Mexico) Severance Tax Bonding Fund, created in 1941

Location: Santa Fe, New Mexico

Size:

Capital Funds: \$9,040,756.02

Purpose: The Severance Tax Bonding Fund was created to secure tax-exempt bonds issued for public capital projects.

Source of Funds: Moneys derived from the levy of the New Mexico Severance Tax on severed natural resources are paid in their entirety to this Fund. Additional sources of income include revenues from projects financed with Severance Tax Bonds and receipts from ground rentals of Public Buildings. Moneys in excess of the next two semi-annual payments on all outstanding Severance Tax Bonds are transferred to the Severance Tax Permanent Fund.

Management Structure: The Fund is managed by the State Treasurer under the supervision of the State Board of Finance. The State Board of Finance consists of the Governor, Lieutenant Governor and three private citizens appointed by the Governor for two year terms. The State Treasurer is responsible for repayment of principal and interest on Severance Tax Bonds.

Management of Funds: Moneys in the Fund are invested in debt instruments authorized by State Statutes.

Portfolio: N.A.

Income: All moneys in the Severance Tax Bonding Fund except an amount sufficient to repay principal and interest on the Severance Tax Bonds on the next ensuing semi-annual payment date is transferred to the Severance Tax Permanent Fund.

Indebtedness Limitation: The State Board of Finance may issue additional Severance Tax Bonds payable from the Severance Tax Bonding Fund provided that aggregate annual debt service on Bonds outstanding including the proposed issue be equal to no more than 50% of previous fiscal year's deposits into the Severance Tax Bonding Fund.

Institution: (New Mexico) Severance Tax Permanent Fund created in 1971

Location: Santa Fe, New Mexico

Size:

Capital Funds: \$103 million, currently accruing at rate of \$4 million per month.

Purpose: The Severance Tax Permanent Fund was created to encourage economic development in the State of New Mexico.

Source of Funds: Moneys in the Severance Tax Permanent Fund are provided from the New Mexico Severance Tax levied for the privilege of severing natural resources including oil and gas, potash, copper, uranium, timber; coal and certain other minerals. Proceeds from the Severance Tax are deposited in the Severance Tax Permanent Fund after the required payments to the Severance Tax Bonding Fund.

Management Structure: The Fund is managed by the State Treasurer under the supervision of the State Board of Finance. The State Board of Finance consists of the Governor, Lieutenant Governor and three private citizens appointed by the Governor for terms of two years.

Management of Funds: Moneys in the Fund may be invested at the discretion of the State Board of Finance. Moneys currently are invested by the State Treasurer in Certificates of Deposit of State banks who in turn make loans for capital projects to the private sector. Loan feasibility and appropriateness of the capital project is left entirely up to the bank. Participation by the Fund in sizeable loans by State banks requires the approval of the State Board of Finance. The principal of the Fund may be used for economic development purposes upon the approval of the State Board of Finance. An amendment to require 3/4's approval of the legislature prior to invasion of the principal of the Severance Tax Permanent Fund is on the November ballot.

Portfolio: Approximately \$94 million of the Fund is invested in Certificates of Deposits of State banks maturing one to five years at a floating rate of short term treasury obligations plus 50 basis points. The remainder is invested under Repurchase Agreements.

Income: Income from the Severance Tax Permanent Fund is transferred to the Severance Tax Income Fund.

Institution: (New Mexico) Severance Tax Income Fund created in 1971

Location: Santa Fe, New Mexico

Size:

Capital Funds: \$2.2 million as of 9/27/76

Purpose: The Severance Tax Income Fund was created to finance public capital improvement projects.

Source of Funds: Income from the investments of the Severance Tax Permanent Fund is deposited in this Fund.

Management Structure: Moneys are invested and disbursed by the State Treasurer under the supervision of the State Legislature.

Management of Fund: Pending appropriation for capital projects, moneys are invested under Repurchase Agreements.

Portfolio: N.A.

Income: Income from the Fund is transferred to the State General Fund.

Institution: Texas Permanent University Fund created in 1881

Location: Austin, Texas

Size:

Assets: 2,100,000 acres of land in nineteen West Texas counties
Book value 8/31/75 \$781,771,634.49

Purpose: Fund created by provisions of the Texas Constitution in order to enable the State Legislature to carry out the purpose, as declared by the Republic of Texas and later in early State Constitutions, of creating a State University. The Constitutional provisions set aside all lands previously appropriated for the creation of a State University, together with the proceeds of any sale thereof, to create a Permanent University Fund. All moneys available in the Fund are to be invested in securities, the income from which will be appropriated by the Legislature, in order to accomplish the purpose of creating, maintaining, supporting and directing a university for the promotion of literature, and the arts and sciences, including an agricultural and mechanical department.

Source of Funds: Funds are accumulated annually in the Fund from oil, gas and water royalties, gains on investments, mineral lease rentals, lease bonuses, and any proceeds of land sold. The Permanent Fund shall be forever kept intact and all annual income shall become part of the Fund.

Management Structure: The Fund is held by the Treasurer of the State of Texas and invested by direction of the Board of Regents of the University of Texas. The Board of Regents consists of nine members who serve without compensation. They are appointed by the Governor for six year terms subject to approval by the Senate.

Management of Funds: The Fund is invested in permitted securities which are bonds of the United States, the State of Texas, or counties of the State, or in school bonds of municipalities in the State, or bonds of any city in the State, or in bonds issued under the Federal Farm Loan Act. In addition, the Fund may be invested in securities, bonds or other obligations issued, insured or guaranteed in any manner by the U.S. Government, or any of its agencies, and in bonds, debentures, or obligations, and preferred and common stocks issued by corporations, associations, or other institutions as the Board of Regents deem to be proper, provided that not more than 1% of the Fund will

Management of Funds:
continued

be invested in the securities of any one corporation nor more than 5% of the voting stock of any one corporation be owned. In addition, stocks purchased will be only in companies incorporated in the U.S. and who have paid dividends for at least five consecutive years and, except for bank or insurance company stocks, are listed on a registered stock exchange.

Portfolio:

Capital Funds (August 31, 1975)	
Securities, cash and equivalent at cost	\$781,771,634.49
U.S. Governments	
Direct Obligations	106,828,987.45
Guaranteed	103,089,999.03
Corporate Bonds	279,571,990.53
Convertible Debentures & Preferreds	16,440,190.64
Common Stocks	254,425,102.52
Short Term Securities & Cash	<u>21,415,364.32</u>
Total	\$781,771,634.49

Income:

The income from Fund investments is appropriated annually by the State Legislature; two-thirds to the University of Texas and one-third to Texas A & M. The income of the Fund may be used only for permanent improvement and not for current expenses. Prior to the distribution of the income of the Fund, provision is made for the expenses of administering the Fund.

Institution: (Wyoming) University Permanent Land Fund created in 1881

Location: Cheyenne, Wyoming

Size:

Assets: 34,492 acres

Capital Funds: \$8,565,000

Purpose: The University Permanent Land Fund was created to receive income from lands granted to Wyoming to be used for the financial benefit of the University of Wyoming. Income from the Fund is used to support capital projects of the University.

Source of Funds: Moneys in the Fund are provided from income received on specific State-owned lands.

Management Structure: The State Treasurer is responsible for investing the Fund. Income from the Fund is transferred to the Treasurer of the University of Wyoming.

Management of Funds: The State Treasurer invests the Fund in debt instruments authorized by State Statutes.

Portfolio: N.A.

Income: Income from the Fund is transferred to the University of Wyoming.

Institution: (Wyoming) Permanent Mineral Trust Fund created in 1974

Location: Cheyenne, Wyoming

Size:

Capital Funds: \$51,250,000

Purpose: The Permanent Mineral Trust Fund was created to retain moneys collected from a Severance Tax on all minerals. Moneys in the Fund may be used for loans to political subdivisions upon legislative approval.

Source of Funds: Collections of a Severance Tax on all minerals are placed in the Fund.

Management Structure: The State Treasurer is responsible for managing and investing this Fund.

Management of Funds: Moneys are invested in debt instruments authorized by State Statutes.

Portfolio: N.A.

Income: Income from the Permanent Mineral Trust Fund is transferred to the State's General Fund.

Institution: (Wyoming) Government Royalties Fund created in 1973

Location: Cheyenne, Wyoming

Size:

Assets: 3.1 million acres

Capital Funds: N.A.

Purposes: Moneys collected in the Fund are applied as follows:

- 50% to Public School System
- 35% to State General Fund
- 9% to University of Wyoming for capital projects
- 6% to counties

Source of Funds: Mineral royalties and lease payments from operators on U.S. Government-owned lands in Wyoming are divided between the U.S. Government and Wyoming. Prior to 1976 the State of Wyoming received 37 1/2% and the U.S. Government 62 1/2%. As of 1976 the U.S. Government and Wyoming divide the mineral royalties and lease payments equally.

Management Structure: Mineral royalties and lease payments are collected by the U.S. Government and disbursed to the State semi-annually.

Management of Funds: Moneys remitted to the State are deposited with the State Treasurer. The Wyoming legislature intends to address the management and application of additional income received pursuant to the State's increased share of mineral royalties and lease payments.

Portfolio: N.A.

Income: N.A.

The following is a summary of States that have not created permanent trust funds to receive income derived from taxation on or royalties from finite natural resources.

STATE

APPLICATION OF SEVERANCE TAX AND ROYALTY INCOME

Alabama

Proceeds of the Timber Severance Tax support State Conservation Department timber restoration activities.

The Coal Severance Tax is used to pay debt service on Alabama State Docks Department, Seaport Facility Revenue and Special Tax Bonds. \$15,000,000 originally issued. \$13,075,000 presently outstanding. No additional bonds may be issued with the Coal Severance Tax as security.

Arkansas

Revenue from severance taxes are returned to the county level after the State deducts all claims against the county, plus a 1 1/2% charge. The 1 1/2% charge is deposited in State General Fund.

California

Fifty-six percent for capital outlay programs in California's Higher Education System.

Twenty-two percent for special projects including irrigation aqueducts and improvement in navigable waterways.

Eight percent to State Conservation Department to support various activities.

Fourteen percent deposited in State General Fund.

Colorado

Severance tax deposited in State General Fund

Idaho

Severance tax deposited in State General Fund.

Kansas

All revenue from Oil, Gas and Minerals Severance Tax is deposited in State General Fund.

All revenue from Sand and Gravel Royalty Tax is returned to counties.

Kentucky

Proceeds from severance tax are placed in short term investments. Semi-annually counties receive money for special projects. All remaining money is deposited in State General Fund.

STATE

APPLICATION OF SEVERANCE TAX REVENUE

Louisiana

Ninety percent of severance tax revenue is retained by the State for general purposes. The remaining 10% is allocated to parishes (counties).

Minnesota

Minnesota deposits 10% of the Taconite Production Tax in their general fund. Ninety percent is returned to districts where taconite is produced.

All proceeds from the Ore Royalty Tax are deposited in State General Fund.

Mississippi

Of the Timber Severance Tax, 50% is allocated to the Forest Redevelopment Fund, 25% is returned to counties and 25% is deposited in State General Fund.

The State levies taxes on gas production with 30% going to participating counties and 70% to State General Fund.

Mississippi also imposes a tax on oil production. Counties receive 30% of the first \$600,000, 10% of the next \$600,000 and 5% thereafter. The balance is deposited in State General Fund.

North Dakota

Thirty-five percent of the taxes which North Dakota levies on coal extraction goes to the Coal Impact Office. The Office then allocates money on the basis of application for public projects in the areas where coal is mined.

Thirty percent is allocated to the Land Board Trust Fund. Two-thirds of this is used to finance environmental studies. One-third is invested with interest proceeds deposited in State General Fund.

Thirty percent is deposited in State General Fund.

Remaining 5% allocated to counties.

Ohio

Seventy-five percent of severance taxes are used for the restoration of orphaned strip mining land.

Twenty-five percent is allocated to replug abandoned oil and gas wells which are deemed as hazards.

Oklahoma

State General Fund receives 85% of severance tax revenue. Fifteen percent is allocated to counties.

Utah

All revenue from severance taxes is deposited in State General Fund. Expenditures are then allocated by State legislature.

Exhibit II

Institution: Government Development Bank of Puerto Rico

Location: San Juan, Puerto Rico

Size:

Assets: \$782,101,951 - 1975

Purpose: The Government Development Bank was created in 1948 as an instrumentality and public corporation of the Commonwealth of Puerto Rico. Its two principal functions are to act as fiscal agent for the Commonwealth, its municipalities and public agencies, and to make loans to private enterprises which will aid in developing the economy of Puerto Rico. The Bank Charter provides that no changes in law may be made that impair the obligations of the Bank, that it shall have existence and that it is exempt from Commonwealth Banking Law.

Source of Funds: The Bank was originally capitalized by legislative appropriations. Its capital is received from operations, capital notes (some of which are guaranteed by the Commonwealth) and lines of credit with U.S. and Commonwealth banks.

Management Structure: The governing body is a seven-member Board of Directors who are appointed by the Governor and serve four year overlapping terms. Appointment is subject to approval by the Council of Secretaries of the Commonwealth. The Bank is under the supervision of and subject to examination by the Commonwealth's Secretary of the Treasury.

Management of Funds: N.A.

Portfolio: N.A.

Functions: As fiscal agent, the Bank is responsible for the timing and sale of bonds and notes by the Commonwealth and its agencies, and, during the period 1944-75 it arranged or provided for nearly \$11 billion of borrowings by these governmental units. The Bank also arranges or provides loans for the private sector. From 1944 to 6/30/75 it reportedly has disbursed over \$337 million loans to private business (about 47% for manufacturing, 22% for commercial buildings, 6% for hotels). As of 6/30/76 there were \$165.4 million business loans outstanding (45% industrial, 3.6% hotel and restaurant, 14% commercial buildings, 4% hospital, and remainder interium and other). The Bank also issues its own full faith and credit notes (\$40,000,000 as of 6/30/75 issued to major mainland and Puerto Rican Banks). The Bank is the central clearing house for checks in the Commonwealth. On 9/11/75 the Bank negotiated a \$612 million note purchase agreement (guaranteed by the Commonwealth) with major mainland and Commonwealth Banks to provide a revolving line of credit for the Commonwealth and its various public agencies. This line of credit will decline to \$352 million by 7/15/79.

Institution: The Pennsylvania Industrial Development Authority
created in 1973

Location: Harrisburg, Pennsylvania

Size:

Assets: \$266,357,736 (as of March 31, 1976)
Capital Funds: \$226,309,289

Purpose: The Authority was established to alleviate unemployment and economic stagnation within the Commonwealth of Pennsylvania by the promotion and development of industrial and manufacturing enterprises, research and development enterprises and agricultural enterprises in those areas where critical unemployment exists. To accomplish its purposes, the Authority is authorized to make mortgage loans to non-profit Industrial Development Agencies. The Agencies utilize funds borrowed from the Authority to finance industrial development projects on behalf of private industry at below market interest rates.

Source of Funds: Moneys to make mortgage loans have been provided from aggregate legislative appropriations of \$191,140,000 during fiscal years 1955 through 1975, from the proceeds of tax-exempt bond issues in the total principal amount of \$72,500,000 and from repayment of principal and interest on outstanding mortgage loans.

Management Structure: Membership of the Authority consists of the Secretary of Commerce who serves as Chairman, and the Secretaries of Labor and Industry, Community Affairs, Agriculture and Banking. In addition seven members are appointed by the Governor for terms of seven years. The Board meets monthly to review mortgage loan applications.

Management of Funds: Disbursement of mortgage loan proceeds and receipt of mortgage loan repayments are the responsibility of a designated Trustee bank. Moneys held by the Trustee are invested according to State Statute.

Portfolio: As of March 31, 1976 the Authority's portfolio was invested in \$206 million mortgage loans yielding from 7/8 of 1% to 4% per annum. In addition the Authority has \$56.5 million invested in U.S. Treasury Securities.

Income: Income from investments remains with the Authority.

Indebtedness Limitation: Additional tax-exempt bonds may be issued provided that estimated net revenues over the life of all outstanding bonds, including the proposed issue, will equal not less than 200% of the annual principal and interest requirements on all bonds to be outstanding.

FINANCIAL ASSISTANCE FOR INDUSTRY

	State Sponsored Industrial Development Authority	Privately Sponsored Development Credit Corporation	State Authority or Agency Revenue Bond Financing	State Authority or Agency General Obligation Bond Financing	City and/or County Revenue Bond Financing	City and/or County General Obligation Bond Financing	State Loans for Building Construction	State Loans for Equipment, Machinery	City and/or County Loans for Building Construction	City and/or County Loans for Equipment, Machinery	State Loan Guarantees for Building Construction	State Loan Guarantees for Equipment, Machinery	City and/or County Loan Guarantees for Building Construction	City and/or County Loan Guarantees for Equipment, Machinery	State Financing Aid for Existing Plant Expansions	State Matching Funds for City and/or County Industrial Financing Programs	State Incentive for Establishing Industrial Plants in Areas of High Unemployment	City and/or County Incentive for Establishing Industrial Plants in Areas of High Unemployment
Alabama	•	•			•	•									• ²			
Alaska	• ⁴	•	•	•	• ³	• ³	•	•							•			
Arizona		• ⁴			•													
Arkansas	•	•			•	•					•	•						
California		• ⁵															• ⁶	
Colorado	•	•			•													
Connecticut	•	•	•	•		•	•	•			•	•			•	•		
Delaware	•		•	•			•	•			•				•			
Florida		•			•													
Georgia		•	• ¹		•													
Hawaii			•		•	•	•	•							•	•		
Idaho		• ⁴																
Illinois	•	•			•													
Indiana	•		•		•	•					•	•			•	•		
Iowa		•			•													
Kansas		•			•	•												
Kentucky	•	•			•	•	•								•			
Louisiana	•	• ⁴			•	•												
Maine	•		•		•						•	•			•		•	
Maryland	•	•			•	•					•	•			•	• ⁷	• ⁷	
Massachusetts	•	•			•	•			•	•					•		•	•
Michigan	•	• ⁴	•		•		•				•				•	•	•	•
Minnesota		•	•		•		•	•	• ⁹	• ⁹					•		•	•
Mississippi	•	•			•	•									• ²			•
Missouri	•	•			•	•		• ¹⁵							•			•
Montana		•			•				• ¹⁷									
Nebraska		•			•										• ²			
Nevada					•	•											•	•
New Hampshire	•	•	•				•				•	•			•			
New Jersey	•		•	•		• ²⁰					•	•			•	•	•	•
New Mexico	•	• ⁴			•	•												
New York	•	•	• ¹⁰	•	•		•	• ¹¹	•	•					•		• ¹²	• ¹²
North Carolina		•																
North Dakota	•	•		•	•	•	•	•	•	•	•	•			• ¹³		•	
Ohio	•	•	•		•	•			•	•	•	•			•			
Oklahoma	•	•	•	•	•	•	•	•	•	•					•			
Oregon		•	• ¹		• ¹¹													
Pennsylvania	•	•	•		•		• ¹⁴	• ¹⁴							•	•		•
Rhode Island	•	•	•		•						•	•			•			
South Carolina	•	•			•													
South Dakota					•													
Tennessee	•			•		•		• ¹⁵			•	•			• ¹⁵			
Texas					• ¹³	•	•								•			
Utah	•	•	•		•		•											
Vermont	•	•	•		•		•	•			•	•			•	•	•	•
Virginia	•	•			•										•		•	•
Washington	•	•			• ¹	• ¹			• ³								•	
West Virginia	•	•			•	•	•	•							•			
Wisconsin					•	• ¹⁶									•			
Wyoming		•			•													
STATE TOTALS	30	35	18	8	43	21	15	13	8	7	14	11	0	0	27	7	13	7
Puerto Rico	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•

Source: Industrial Development
December 1975

TAX INCENTIVES FOR INDUSTRY

OTHER LAWS

	Corporate Income Tax Exemption	Personal Income Tax Exemption	Excise Tax Exemption	Tax Exemption or Moratorium on Land, Capital Improvements	Tax Exemption or Moratorium on Equipment, Machinery	Inventory Tax Exemption on Goods in Transit (freight)	Tax Exemption on Manufacturers' Inventories	Sales/Use Tax Exemption on New Equipment	Tax Exemption on Raw Materials Used in Manufacturing	Tax Credits for Use of Specified State Products	Tax Stabilization Agreements for Specified Industries	Tax Exemption to Encourage Research and Development	Accelerated Depreciation of Industrial Equipment	State Right to Work Law	State Minimum Wage Law	State Fair Employment Practice Code	Statewide Uniform Property Tax Evaluation Law	Statewide Air Pollution Control Law	Statewide Water Pollution Control Law	Statewide Industrial Noise Abatement Law
Alabama	•		•	•	•	•	•	•	•					•			•	•	•	
Alaska								•	•		•				•		•	•	•	
Arizona		•				•	•							•		•	•	•	•	
Arkansas						•		•	•					•		•	•	•	•	
California								•	•					•		•	•	•	•	
Colorado						•	•	•	•				•		•	•	•	•	•	
Connecticut	•	•			•	•	•	•	•						•	•	•	•	•	•
Delaware			•		•	•	•	•	•					•		•	•	•	•	
Florida	•	•	•		•	•	•	•	•	•	•	•		•		•	•	•	•	
Georgia								•	•					•		•	•	•	•	
Hawaii		•	•		•	•	•	•	•					•		•	•	•	•	
Idaho						•	•	•	•					•		•	•	•	•	
Illinois						•	•	•	•						•	•	•	•	•	
Indiana					•			•	•						•	•	•	•	•	
Iowa	•				•	•	•	•	•					•		•	•	•	•	•
Kansas				•	•	•		•	•					•		•	•	•	•	
Kentucky				•	•		•	•	•						•	•	•	•	•	
Louisiana	•			•	•	•		•	•	•				•		•	•	•	•	
Maine							•	•	•					•		•	•	•	•	•
Maryland				•	•		•	•	•				•		•	•	•	•	•	•
Massachusetts	•	•	•		•		•								•	•	•	•	•	•
Michigan		•		•	•			•							•	•	•	•	•	
Minnesota		•		•	•	•	•	•	•	•	•			•		•	•	•	•	•
Mississippi		•		•	•	•	•	•	•					•		•	•	•	•	
Missouri	•	•			•	•	•	•	•						•	•	•	•	•	
Montana	•			•	•	•	•	•	•							•	•	•	•	
Nebraska							•	•	•						•	•	•	•	•	
Nevada	•	•					•	•	•						•	•	•	•	•	
New Hampshire		•			•	•	•	•	•					•		•	•	•	•	•
New Jersey		•		•	•	•	•	•	•						•	•	•	•	•	•
New Mexico						•	•	•	•					•		•	•	•	•	•
New York	•	•	•	•	•	•	•	•	•					•		•	•	•	•	•
North Carolina						•	•	•	•						•	•	•	•	•	
North Dakota	•			•	•	•	•	•	•						•	•	•	•	•	
Ohio	•	•				•	•	•	•						•	•	•	•	•	•
Oklahoma				•	•	•	•	•	•					•		•	•	•	•	
Oregon		•	•	•	•	•	•	•	•						•	•	•	•	•	•
Pennsylvania					•	•	•	•	•						•	•	•	•	•	
Rhode Island				•	•	•	•	•	•						•	•	•	•	•	
South Carolina				•	•	•	•	•	•						•	•	•	•	•	
South Dakota	•	•	•	•	•	•	•	•	•						•	•	•	•	•	•
Tennessee		•		•	•	•	•	•	•	•	•			•		•	•	•	•	
Texas	•	•		•	•	•		•	•						•	•	•	•	•	
Utah						•	•	•	•						•	•	•	•	•	
Vermont						•	•	•	•					•		•	•	•	•	
Virginia				•	•		•	•	•					•		•	•	•	•	
Washington	•	•		•	•	•	•	•	•						•	•	•	•	•	•
West Virginia	•		•				•	•	•						•	•	•	•	•	
Wisconsin	•				•	•	•	•	•						•	•	•	•	•	
Wyoming	•	•	•		•	•	•	•	•						•	•	•	•	•	
STATE TOTALS	19	19	10	21	27	38	34	33	43	3	4	7	21	19	40	40	41	50	50	17
Puerto Rico	•	•	•	•	•	•	•	•	•					•	•	•	•	•	•	•

Footnotes for Tables on pages 12, 13, 14.

- 1--Permitted only in specified municipalities
- 2--State allows cities or counties to offer financial aid for existing plant expansions. In Louisiana, state financing aid is directly involved only in the case of those port authorities whose obligations are backed by the full faith and credit of the state
- 3--Activity is limited to Anchorage Port Authority in Alaska, to Ports Authority in Georgia and to port districts in Oregon. In Washington, port districts are municipal corporations operating under special state enabling legislation and are the only public bodies authorized to issue either revenue or general obligation bonds to finance industrial development
- 4--Authorized but none is active
- 5--State-sponsored but privately operated non-profit Regional Job Development Corporations may be established in low-income areas to provide loans to small businesses
- 6--State guarantee of loans from privately operated non-profit Regional Job Development Corporations serving low-income areas
- 7--Limited to EDA-designated areas
- 8--Loans also cover working capital, site improvements and inventories
- 9--Permitted for processing products of agriculture, including forestry and timber production
- 10--New York Job Development Authority and New York Urban Development Corp. have the power to issue non-guaranteed bonds
- 11--New York Job Development Authority is empowered to participate in loans for machinery and equipment in new manufacturing plants
- 12--Under the New York Job Incentive Program, a corporate franchise or unincorporated business tax credit is allowed to firms locating, expanding or improving facilities in a low-income section of a city of 50,000 or more population or in a low income rural county. The firm must create or retain at least five jobs and provide an approved training program. In addition, the largest share of the facility's volume of business must be from outside the eligible area in which it is located, as in manufacturing or wholesaling. The credit is given for up to 10 years. The 2% credit described in footnote 46 may be taken instead of the job incentive credit. Under the Job Incentive Program real property tax exemption is a local option
- 13--Permitted for electric generation and transmission facilities in North Dakota, and for electric generation and transmission facilities and for wastewater treatment facilities in Texas
- 14--State and local program of participation in building construction
- 15--State loan guarantees of up to \$250,000
- 16--For acquiring and developing sites
- 17--Authorized if a one mill, multi-purpose tax levy is approved by local voters
- 18--A 15% reduction in assessed valuation of business inventories is allowed. Business inventories include raw materials used in manufacturing
- 19--Exemption is allowed on certain types of equipment, including rail freight cars, certain watercraft and vessels of more than 1,000 tons burden
- 20--Applies only to pollution control equipment
- 21--Law allows reduction in taxes but not exemption. Goods in transit, inventories and raw materials are assessed at 5%
- 22--Corporate income tax credit is allowed only for the cost of pollution control equipment
- 23--Equipment and machinery acquired after the 1973 assessment date is exempt from local property tax
- 24--Delaware and New York do not collect excise tax
- 25--Nevada, Ohio, Texas and Washington do not tax corporate or personal income. Florida and New Hampshire do not tax personal income
- 26--Raw materials are assessed at 25%, while most other tangible personal property is assessed at 100%
- 27--50% of federal tax paid is exempt
- 28--First \$4,500 of assessed taxable value of personal property is exempt
- 29--Inventory is taxed only on the value of raw materials
- 30--Applicable to Industrial Revenue Bond financed property only. A 10-year exemption is allowed
- 31--In Kentucky, Rhode Island and Tennessee, the exemption is applicable at the local level only. In Maryland, the exemption may be applicable at the county or local level. In Virginia, localities have the option of exempting all or part of certified pollution control facilities and equipment from real or personal property taxes
- 32--Applicable under the tax equalization law only
- 33--Exemption applicable to capital improvements only
- 34--Allowed except for sales/use tax when purchased for use as an ingredient in tangible personal property for sale
- 35--A 1% tax credit, based on wages paid, is allowed for the first three years to new and expanding industry engaged in the mechanical or chemical transformation of materials or substances into new products. "Expanding" means to expand a present operation so as to increase total permanent jobs by 30%
- 36--Taxed at 2% instead of usual 4%
- 37--R&D equipment is classified as manufacturers' machinery and equipment and, as such, is eligible for tax exemptions
- 38--Local option, in designated redevelopment areas
- 39--Reduced 79%
- 40--Exemption is allowed on separate, detachable accessory tools and equipment which have a useful life of less than 12 months
- 41--State does not collect sales/use tax
- 42--1976 business inventories are allowed a 50% exemption; 1977 and thereafter, a 62.5% exemption will be allowed
- 43--Applicable to goods stored in bonded warehouses
- 44--New Jersey citizens employed in New York and Pennsylvania are not exempt
- 45--Noise abatement codes recommended by state for adoption by municipalities
- 46--A tax credit equal to 2% of qualified capital invested in new production facilities may be applied against a business corporate franchise, unincorporated business income or personal income tax liability. The tax credit is restricted to investment in buildings, equipment and facilities which have a useful life of at least four years and are used in manufacturing, processing, assembling, refining, mining, agricultural or commercial fishing. Experimental research and development facilities may elect this option in place of the write-off described in footnote 47. A particular investment is not eligible for both the investment credit and other state tax incentives. Corporate franchise taxpayers will continue to be required to pay a minimum tax of \$125 annually. Any credit remaining may be carried forward
- 47--Costs paid or incurred in a taxable year by incorporated or unincorporated business for experimental R&D facilities, for industrial waste treatment facilities and/or for air pollution control facilities may be deducted from net income for tax purposes. The 2% credit described in footnote 46 may be taken in lieu of this credit
- 48--Tangible and intangible personal property is not subject to ad valorem taxes
- 49--New equipment is allowed a preferential rate of 1%, with a maximum tax of \$80 per article
- 50--Leaf tobacco is allowed an exemption of 60% of tax rate, bales of cotton, 50%, and peanuts, 20%
- 51--Exemption extends only to new construction
- 52--Tax credits allowed to manufacturers and processors for property taxes paid on goods in process
- 53--Exemption allowed while facility is under construction only
- 54--Exclusion from sales and use tax on industrial purchases used directly in industrial production and research
- 55--Exclusion of tangible personal property from taxation at local level
- 56--Rhode Island's sales/use tax is being phased out over five years
- 57--In Tennessee, tax credits are allowed for products of state soil. In Florida, tax credit applies only to alcoholic beverages produced from specified Florida-grown agricultural products
- 58--Seven-year annexation or de-annexation exemption
- 59--Allowable depreciation is similar to that which is permitted under federal laws
- 60--Exempt from sales/use tax, but not from business capital tax
- 61--Local governments may classify separately the tangible personal property of research and development firms from that of other taxpayers and tax it at different rates
- 62--Deduction is allowed for sales tax paid on energy
- 63--80% credit
- 64--Reduced rate of 1.5% (1% state and 5% local) applied to industrial machinery, installation and repairs
- 65--Provided only in rare instances. In California, a few cities and counties will lease land they own at nominal rates
- 66--Limited to technical assistance
- 67--Facilities available on a contract basis
- 68--State vocational education program keyed to federally funded program
- 69--Carried out through local development corporations
- 70--Available to industry on a contract and/or consulting basis
- 71--City-owned land only. Cities may not purchase land for purpose of providing free land to industry
- 72--Highway Commission will build first two miles of road into new ski areas
- 73--Maryland Industrial Development Financing Authority will guarantee up to 80% of the mortgages for land and 70% for equipment for recreational projects
- 74--Activity limited to certain units
- 75--State supplies 75% of cost of administering programs; no reimbursement to trainees
- 76--Cities and counties are authorized to use mill levy for industrial development purposes. Speculative buildings and free land have been provided in some instances
- 77--Port districts only
- 78--Funds are from Public Health for solid waste disposal projects
- 79--State matches funds from U.S. Dept. of Housing and Urban Development

Exhibit III

Institution: Swedish Investment Bank Ltd.

Location: Stockholm, Sweden

Size: 12/31/74
Assets: U. S. \$672.8 million
Capital: U. S. \$270.9 million

Purpose: Swedish Investment Bank Ltd. ("SIB") was established in 1967 by an act of the Swedish Parliament to assist in the financing of industrial and commercial projects in Sweden which encourage economic rationalization, structural adaptation and development. The act establishing SIB contemplated that its lending will be consistent with national economic policies. All of the capital stock of SIB is owned by the Swedish Government. In addition, the Swedish Government has extended a limited guarantee of SIB's obligations.

Source of Funds: Subscribed capital, reserves, net income, cash flow from lending operations and borrowing.

Management Structure: Governed by a Board of Directors (9) and Deputy Directors (9). Ongoing operational responsibility rests with Managing Director and Staff. Total employees: 31, 22 of whom are managerial or professional. In certain loan and credit evaluations, SIB engages special consultants.

Management of Funds: Internal. Bank's staff consists primarily of "lending officers" with previous commercial and investment banking experience.

Portfolio: SIB makes medium (5-10 years) and long-term (10-20 years) loans and guarantees thereof principally to or for private Swedish companies to finance industrial projects in Sweden and, to a lesser extent, Swedish exports. Such financing is not generally available from other sources in Sweden and may involve additional risks especially those related to long-term developments, which would not normally be assured by conventional Swedish lending institutions. SIB is also authorized to make equity investments.

In assessing individual projects, SIB pays particular attention to the commercial viability of the project concerned. SIB also considers the impact of the use

Portfolio:
(cont'd.)

of proceeds on the Swedish economy. One of SIB's objectives is to earn a satisfactory return on its equity capital and it applies credit standards and negotiates loan terms consistent with this purpose.

At 12/31/74, SIB's outstanding loans totalled U. S. \$517.6 million and its guarantees outstanding totalled U. S. \$15.8 million.

Capital Structure:

	12/31/74		
Debt	U. S.	\$487.8 million	64.3%
Capital	U. S.	<u>270.9 million</u>	<u>35.7</u>
	U. S.	\$758.7 million	100.0%

Income:

10% of net income allocated to statutory reserve.
Substantially all net income to date retained by SIB.
Income not exempt from taxation.

Institution: Japan Development Bank

Location: Main office in Tokyo. Other offices in 9 cities in Japan and in Washington, D. C., New York City, London and Frankfurt.

Size: 3/31/76

Assets: ¥ 3,521,391 million (\$11,433 million)
Capital: ¥ 233,971 million (\$759.6 million)

Purpose: Established in 1951 as a Japanese Government financial institution pursuant to the Japan Development Bank Law. Purpose is to supply long-term funds for the promotion of industrial development and economic and social progress. JDB makes loans to provide funds: (1) for acquisition and construction or improvement of plant and equipment; (2) for reclamation of land; (3) for acquisition of land and construction of buildings and equipment for urban redevelopment projects. A related authority (which JDB has not yet exercised) permits JDB to provide funds by subscription to corporate debentures issued to raise funds for above purposes. JDB can guarantee repayments of loans and has authority to make equity investments in large-scale industrial complexes in underdeveloped regions in Japan.

Source of Funds: Principal sources are borrowings from Japanese Government, repayment of loans and internal sources. Outstanding government loans to JDB as of 3/31/76 amounted to \$9.3 billion. Other sources have consisted of foreign currency borrowings from the World Bank, all guaranteed by the Japanese Government. Also, there have been 6 dollar issues (including 5 registered issues publicly offered in U. S.), 1 Swiss franc issue and 1 Deutsche Mark issue of external loan bonds and notes. JDB is authorized to borrow an amount equal to 10x its capital and statutory reserve.

Management Structure: JDB is managed by a Governor, a Deputy Governor and 8 Executive Directors. JDB also has 2 auditors and 6 Counsellors. The Governor, the Deputy and the Auditors are appointed by the Prime Minister for terms of 4 years. The Executive Directors and Counsellors are appointed by the Governor for terms of 4 years and 2 years, respectively. The Governor is the CEO. The Executive Directors exercise various management functions in accordance with delegations from the Governor. Final authority to make decisions for JDB in all matters resides exclusively with the Governor.

Management of Funds: JDB makes its loans at fixed rates no greater than rates charged by private financial lenders and in most cases at lower rates. Maximum rate has been 9.2% since 11-75. JDB has limited foreign currency loans to amount of borrowings from the World Bank and charges the same interest rate plus 0.3%. JDB charges 0.2% to 0.3% per annum on outstanding amounts of foreign credits guaranteed by it. JDB makes most of its loans with original maturity of 10 - 15 years. Most of JDB's lending operations involve the financing of projects in cooperation with private financial institutions, with JDB taking the intermediate and longer term maturities and private banks taking the shorter maturities.

Portfolio: From inception to late 1960's, JDB's lending activities were directed primarily to electrical power, ocean shipping, coal mining, and the iron and steel industry. In the late 1960's and 1970's, JDB began to become more involved in urban development and pollution control. As of 3/31/76, portfolio was as follows: urban development 16.9%; regional development 12.5%; pollution control 14.2%; quality of life improvement projects 2.8%; resources and energy 15.7%; ocean shipping 21.6%; technological development 7.6%; other 8.2%; foreign currency loans 0.5%.

Capital Structure:	3/31/76	(\$ Millions)	%
Long-term borrowing from government		\$ 9,299	84.4%
Guaranteed long-term borrowing from World Bank		55	0.5
Guaranteed external loan bonds and notes		228	2.1
Capital and statutory reserve		<u>1,437</u>	<u>13.0</u>
Total capital		\$11,019	100.0%

Income: For fiscal year ending 3/31/76 JDB earned \$105.6 million. Of net earnings, \$78.9 million were put into the statutory reserve, and \$26.7 million was paid to the Japanese National Treasury.

Institution: National Financiera S.A.

Location: Mexico City, Mexico. Offices in New York and Tokyo.

Size: 12/31/75

Assets: U. S. \$6.1 billion

Capital: U. S. \$555 million (including reserves and special funds)

Purpose: National Financiera S.A. ("Nafinsa") was established in 1934 and is the principal instrument of the Mexican Government for the financing of economic development in Mexico. By law, the Government must own 51% of Nafinsa's capital stock. At 12/31/75, the Government owned, directly and indirectly, 68% of such stock, with the balance owned by other Mexican institutions.

Nafinsa's broad purpose is to assist in the financing of development projects which (1) create employment; (2) improve personal income; (3) expand regional development; (4) centralize industry; (5) promote exports; (5) stimulate capital formation; (6) foster economic independence.

Source of Funds: Capital funds contributed by the Government, borrowings, retained earnings and cash flow from lending operations. Principal source is borrowings. By law, the Government can call up additional capital subscriptions from certain Mexican financial institutions. Nafinsa also administers 209 special purpose development trust funds for the account of the Government.

Management Structure: Managed by Board of Directors (Minister of Finance is Chairman). Director General is responsible for ongoing operations and policy. President of Mexico may veto resolutions of Board under certain circumstances. Total staff approximately 1,600.

Management of Funds: Internal.

Portfolio: Nafinsa may participate in the financing of development projects through direct loans, loan guarantees or equity investments, all of which may be extended to or made in or on behalf of both public and private sector entities. Principal activity is direct lending (U. S. \$4.9 billion outstanding) with public sector borrowers accounting for

Exhibit IV

Institution: International Bank for Reconstruction and Development (World Bank)

Location: Headquartered in Washington, D.C., U.S.A. Offices in London, Paris, Tokyo. Missions in 20 countries.

Size: 3/31/76
(000's)

Assets: U. S. \$29.5 billion

Capital: Authorized Capital: U. S. \$30.9 billion
Paid-in-Capital: U. S. \$3.1 billion

Purpose: Established 6/24/46 pursuant to articles of agreement drawn up at Bretton Woods Conference of July, 1944. Initial membership 29 sovereign states. Present membership 127 sovereign states.

Purpose of World Bank is to function as intergovernmental financial institution to (a) assist in the reconstruction and development of member states by facilitating investment of capital for productive purposes; (b) supplement private foreign investment through guarantees of or participation in private investments; (c) supplement private investment via loans from its own resources or borrowed funds. See "Affiliated Institutions" below.

Source of Funds: Capital provided by subscriptions of member states and borrowings in international and U. S. capital markets. Supplemented by internal cash flow from lending activities and sale of loans.

Management Structure: Governed by Board of Governors composed of one from each member state. Executive Directors (20) appointed by Board function as Board of Directors. President selected by Executive Directors and is responsible for all operations. Operations are organized by geographic area, industry, and function. Total employees: approximately 3,500.

Management of Funds: Internal. All loans to or guaranteed by member states. Loan portfolio monitored with respect to industry and country in relation to worldwide economic conditions. The bank has not suffered any losses on its loans to date and does not take part in debt rescheduling agreements.

- Portfolio: Loans made generally in conformity with 5 principles: (1) loans must be to governments, government agencies or authorities, or if to private enterprises, guaranteed by a government (only member governments eligible); (2) loans must be for productive purposes based on bank analysis; (3) bank must exercise prudence in making loans and consider ability of borrower to obtain foreign exchange necessary for loan service; (4) Bank does not make loans obtainable privately on reasonable terms; (5) use of proceeds supervised by Bank. Since inception, loans totalling \$31.1 billion have been made to 95 countries. Current loans outstanding total \$27.7 billion. Largest borrowers are Brazil, Mexico, Korea, Yugoslavia, Columbia, Iran, Turkey, Philippines and Nigeria. Loans made for extended terms at fixed rates (1/2% above money cost to Bank adjusted quarterly).
- Capital Structure: Debt 73.2%; Capital Stock 26.8%. Capital Stock funds may only be used for lending with consent of each member state; otherwise such funds must be used for administrative purposes or to support guarantees and borrowings only.
- Income: Generally retained by Bank except portion transferred to International Development Association.
- Affiliated Institutions: International Finance Corporation. Makes loans and investments to private enterprises in member countries without government guarantee. 104 governments are members. Sources of funds are members' subscriptions and loans from Bank. Staff is substantially identical to that of Bank.
- International Development Association. Purpose is to promote economic development in less developed member countries. 116 countries are members. Loans generally made for terms of 50 years without amortization. Service charge of 3/4% on outstanding balance levied in lieu of interest. Staff substantially identical to that of Bank.

Institution: Inter-American Development Bank

Location: Headquartered in Washington, D.C., U.S.A.
Field offices in 23 South American locations

Size: 12/31/75

Assets: U. S. \$2.98 billion
Capital: Authorized Capital: U. S. \$6.3 billion
Paid-in-Capital: U. S. \$983 million

Purpose: Established 10/1/60 pursuant to Inter-American Development Bank Agreement of December, 1959. Membership consists of 24 North and South American Governments, plus Belgium, Denmark, Israel, Japan, Spain, Switzerland, U.K., West Germany and Yugoslavia.

Purpose of Bank is to further individual and collective economic and social development of regional developing member countries via: (1) promotion of public and private investment for development purposes; (2) financing, directly or through guarantees, of development and economic growth of members; (3) encouragement and/or supplement of private investment in development projects; (4) co-ordination of members' development, economic growth and foreign trade; (5) provision of technical assistance on development projects.

Source of Funds: Capital provided by members' subscriptions plus borrowings in U. S. and international capital markets, internally generated funds and sales of loan participations. See also "Special Funds" below.

Management Structure: Governed by Board of Governors, one from each member state; executive powers delegated to Executive Directors (11), one U. S., 2 non-regional and 8 regional. Administrative responsibility centered in President, appointed by Board, and Executive Vice President, appointed by Executive Directors. Operations organized by region and function.

Management of Funds: Internal. Loans made directly to or guaranteed by member governments (98%). Loans monitored with respect to country, industry and regional economic conditions. Since inception, defaults have occurred on 2 loans totalling \$11.2 million, resulting in net loss of \$1.8 million. The Bank does not take part in debt rescheduling agreements.

Portfolio:

Loans made pursuant to 6 principles: (1) loans made only on basis of formal analysis presented to Executive Directors; (2) in evaluating loan or guarantee, Bank must take into account ability of borrower to obtain private financing on terms it believes reasonable; (3) Bank must consider ability of borrower or guarantor to meet loan obligations; (4) in opinion of Bank, interest rate and other loan charges plus amortization schedule must be appropriate for the project being financed; (5) the Bank must receive adequate compensation for risks assumed by guaranteeing loans made by others; (6) loans made for special projects only and directly, except when amounts too small to warrant bank supervision. Since inception, Bank has made or authorized 889 loans aggregating \$8.7 billion. Largest borrowers are Brazil, Mexico, Argentina, and Columbia. Loans made for terms of 10-25 years, including grace periods, at fixed rates. Current lending rate is 8%.

Capital Structure:

Debt 53.6%, capital funds and reserves 46.4%. Capital subscriptions of member states available for general use unless specifically restricted.

Income:

Income retained as reserve for loan losses.

Special Funds:

Social Progress Trust Fund. Administered by Bank from grant provided by U. S. Government. Resources of Fund may be used to improve land use, land settlement, low income housing, water supplies, sanitation or education. Assets consist of 119 loans aggregating U. S. \$537.2 million.

Special Operations Fund. Established by Bank from separate contributions by members to finance projects to which special circumstances apply, principally need for loan terms to be more liberal than those normally offered by Bank. Assets consist of 453 loans aggregating U. S. \$4.2 billion.

Venezuelan Trust Fund. Administered by Bank from U. S. \$500 million grant provided by Venezuela in 1975. Purpose is to contribute to the financing of projects and programs that would have significant effect on development of Bank's smaller members. Approved loans aggregate U. S. \$83.7 million.

Institution: Asian Development Bank
Location: Principal office in Manila, Philippines

Size: 3/31/76

Assets: U. S. \$2,834,910
Capital: Authorized Capital: U. S. \$3.3 billion
Paid-in-Capital: U. S. \$1.1 billion

Purpose: Established in 1966 as an international inter-governmental institution pursuant to an agreement initially signed by 31 countries.

Purpose is to foster economic growth and cooperation in Asia and the Far East (the "region") and to contribute to the acceleration of economic development in the developing member countries in the region, collectively and individually. The Bank's principal functions include: (1) promotion of public and private investment; (2) financing economic growth; (3) assisting in coordination of members' economic growth, plans and policies; and (4) providing technical assistance for the preparation, financing and execution of development projects and plans.

Source of Funds: Capital provided by subscriptions of member states and borrowings in member countries and elsewhere. General principle is that borrowings should be diversified as to country of borrowing. These sources supplemented by internal cash flow from lending activities.

Management Structure: Managed by Board of Governors, Board of Directors, President, Vice Presidents, other officers and staff. All powers are vested in Board of Governors (with certain powers which may be delegated to Board of Directors), with each member selecting a Governor and an alternate Governor. The Board of Directors (12) has responsibility for the direction of the general operations of the Bank.

Management of Funds: Internal. Bank may make, participate in or guarantee loans to the governments of its developing member countries, to any of their agencies or political subdivisions and to public or private enterprises operating within such countries, as well as to international or regional entities

Management of Funds:
(cont'd.)

concerned with economic development in the region. The Bank has not suffered any loan losses in its ordinary operations to date and follows a policy of not taking part in debt rescheduling agreements.

Portfolio:

Loans made generally in conformity with the following principles: (1) the Bank's loans cover only a portion of the total costs of each project financed; (2) goods and services must be purchased in the loan country, with competitive bids to be received on such; (3) realistic economic, technical, and financial feasibility of projects involved; (4) adequate borrowing capacity; (5) beneficial effects on domestic savings and balance of payments; and (6) assistance in expansion of employment opportunities. Loans made for projects in 15 member countries, including industrial development banks (27.3%), utilities (35.7%), transportation and communications (21.8%), agriculture (14.3%) and education (0.9%).

Capital Structure: Debt 46.5%; Capital Stock 53.5%.

Income: Generally retained by Bank.

Institution: African Development Bank

Location: Abidjan, Ivory Coast

Size: Authorized Capital: U.A. 400 million;
Issued Capital: U.A. 370 million (1 Unit of Account =
1 special drawing right of the IMF)

Purpose: Established by African Governments in 1964, commenced operations in July 1966. Present membership consists of 39 of 42 countries which are members of Organization for African Unity, including 16 which are included in U. N.'s list of 25 least developed nations.

Purpose of Bank is to promote the economic development of its member countries and social advancement of their peoples through gradual integration of their economies.

Source of Funds: Subscribed capital, borrowings and retained income. Bank also operates African Development Fund, established from grants from 16 non-African exporting countries, which makes 50 year interest free loans and SIDFIDA, a Geneva-based internationally funded organization of private enterprises which assists in the mobilization of international private capital for development projects in Africa.

Management Structure: Board of Governors, one from each member, oversees operations. Management responsibility and policy coordination rests with Board of Directors (9), President and staff.

Management of Funds: Internal. Bank oversees projects for which funds have been dispersed.

Portfolio: Alone or jointly with others, Bank (1) utilizes available resources to finance investment projects or programs consistent with its purpose; (2) promotes private and public capital investment in Africa; (3) provides technical and financial assistance in project evaluation and structure. All loans and investments in private sector must be government guaranteed. Portfolio at 9/30/74 consisted of one or more loans or equity investments in 31 countries totalling U. S. \$192 million. Loan terms keyed to ability of borrower to repay and service debt.

Capital Structure: Believed to be solely members' capital subscriptions, plus retained income. Discrepancy between issued capital and outstanding loans not reconcilable from existing data.

Income: Believed to be reinvested in operations.

Institution: European Investment Bank

Location: Luxembourg

Size: 12/31/75

Assets: U. S. \$6.4 billion

Capital: Authorized Capital: U. S. \$4.1 billion
Paid-in-Capital: U. S. \$471.9 million
Capital Subscriptions Due: U. S. \$177.0 million

Purpose: The EIB was established by the Treaty of Rome in 1957 which also established the EEC. The members of the EIB are the nine member states of the EEC. The purpose of the EIB is to contribute to the balanced and orderly development of a common market among the member states. The EIB grants and guarantees long-term loans to finance projects which are related to the development of the less advanced regions of the Common Market or the development of its conversion areas, where traditional activities are being supplanted by newer economic activities which serve the common interests of several member states. By unanimous decision the EIB grants loans for projects outside the EEC.

Source of Funds: The EIB finances its loans from the capital paid in by the member states, from internally generated funds and from borrowings in European and international capital markets.

Management Structure: The EIB is administered and managed by (1) a Board of Governors composed of one government minister (usually the minister of finance) appointed by each member state; (2) a Board of Directors composed of 18 Directors and ten Alternative Directors each appointed by the Board of Governors for a 5 year term on nomination by the member states and the Commission of the European communities; (3) a Management Committee, consisting of a President and four Vice Presidents appointed for 6 years by the Board of Governors on recommendation of the Board of Directors.

Management of Funds: Management of funds is internal, and the EIB has not experienced any defaults on its loans or guarantees.

Portfolio:

Loans and guarantees are made according to the following policy: (1) for projects that improve less developed regions of the EEC and that are of common interest to the member states (such projects preferably assist in the coordination of markets and the integration of the economies of member states), (2) for projects that are of sufficient size to avoid widespread dispersal of its resources; (3) loans made shall only supplement the resources otherwise available to the borrowers for such projects; (4) special attention is given to projects in which member countries' capital is invested. The EIB does not generally lend more than 40% of the cost of a project. At December 31, 1975 it had loans disbursed as follows: 30.5% energy projects; 24.8% industry; and 17.5% to transportation.

Capital Structure:

80% Funded Debt, 11% Capital, 9% Statutory Reserves. Subscribed capital is \$4,129.5 million of which \$648.9 is or will be paid in by members. Calls on subscribed capital are required to be in proportion to members' percentage of subscription obligations.

Income:

Income is appropriated to statutory reserve. EIB's assets and income are exempt from all direct taxes of the member states.

Institution: European Coal and Steel Community ("ECSC")

Location: Brussels, Belgium; Luxembourg

Size: At December 31, 1975, the assets of the ECSC amounted to U. S. \$3.5 billion. ECSC's "capital" is provided solely from retained earnings and reserves.

Purpose: Established 4/18/51 pursuant to treaty. Initial membership of 6 European nations. Present membership 9 European nations. Purpose is to aid the development of the economies of the member states through the creation of a common market for coal and steel. Also, ECSC facilitates the financing of capital investment programs in coal, coke, iron ore, iron, steel and scrap by lending funds which it obtains primarily through its own borrowing. ECSC also responsible for coordinating production in above-named products by methods such as determining general objectives for modernization and expansion of productive capacity, reviewing investment programs, making research grants, enforcing fair competition, fixing prices in emergencies and imposing fines for infringement of ECSC rules. Also active in promoting better living and working standards for workers in the coal and steel industries through housing loans and retraining and research grants.

Source of Funds: Capital provided by: (1) a regular revenue levy collected monthly in the respective currencies of the member states from steel producers. Levy payments to be made in 1976 are expected to be \$104.9 million; (2) borrowings through bonds or notes, both public and private. As of 3/31/76 ECSC had outstanding \$3.3 billion of funds borrowed.

Management Structure: Governed by a Commission comprised of 13 members who are nationals of the member states, not more than 2 of whom may have the same nationality. Over the Commission is a Council consisting of one representative of each member state. Certain actions of the Commission require the assent of the Council. The ECSC is also responsible to a European legislative assembly - the European Parliament, which consists of 198 representatives elected by the legislatures of the member countries. It reviews the ECSC and by a vote of consensus can compel the resignation of the members of the Commission. Also, the Court of Justice of European Communities, comprised of 9 judges, interprets and applies the provisions of the treaty. Decisions are binding.

Management of Funds: The Commission has the responsibility of borrowing, financing and managing funds. The primary responsibility for specific capital investment programs rests with the individual borrowers who decide what capital projects they want to undertake and whether to seek the assistance of the ECSC. The criteria applied by ECSC in selection of projects to be financed are based on normal banking practices. ECSC borrows in whatever currencies appear most advantageous to it and under the best conditions prevailing at the time in the capital markets in which the ECSC operates. In order to minimize risks, ECSC matches principal, interest rates, maturities and currencies of loans made with its own borrowings. A general policy is also to secure loans by guarantee of country, banks or industrial concerns or mortgages on the financed projects.

Portfolio: Since inception ECSC has granted loans (both from borrowed funds and from its own resources) aggregating \$3.4 billion through 12/31/75, of which, as a result of repayments by the borrowers, \$2.7 billion was then outstanding. Of this amount, about 26% was guaranteed by the member countries, 25% by banks and 18% by industrial concerns, and 27% was secured by mortgages on the projects financed. Since establishment, there have been defaults on 3 loans, totaling \$1.8 million, less than 0.1% of the total amount of loans granted by the ECSC. Rescheduling of principal and interest payment dates and delays in the receipt of loan service charges have been insignificant. Guarantees granted by ECSC since inception have aggregated to \$65.3 million through 12/31/75, of which \$24.3 were outstanding at that date. ECSC's guarantees are secured by guarantees from member countries, banks, industrial concerns or by mortgages on the projects financed. ECSC has never been required to make payment on a guarantee.

Capital Structure:

	12/31/75	
Borrowings	\$2,786 million	82.1%
Reserves	338	9.9
Revenue Funds	<u>271</u>	<u>8.0</u>
Total Capital	\$3,395 million	100.0%

Income:

In 1975 revenues of \$307.95 million: 57.9% from interest on loans; 26.6% from levies and 15.6% from contributions, interest investments and other. 55.3% went to pay interest and fees payable; 6.3% for administration; 7.5% for research; and 14.9% went for other. Most of the 16% excess went to the Guarantee Fund, housing projects, and reconversion, technical and economic research.

Exhibit V

Institution: Saudi Development Fund

Location: Riyadh, Saudi Arabia

Size:

Capital: SR 10 billion (Saudi Riyals)

Purpose: Established in September 1974, the SDF participates in financing development projects in the developing states by providing loans.

Source of Funds: Believed to be direct contribution from Saudi Arabian revenues.

Management Structure: The Fund is managed by a six man Board of Directors comprised of a Deputy Chairman, the Minister of Finance and National Economy, and four other members selected for three year terms of office by the Council of Ministers.

Management of Funds: Internal

Portfolio: The Fund will grant loans to projects of economic or social benefit to the recipient state on the condition that the loan is repaid in Saudi Riyals and that any one loan does not exceed 5% of the Fund's capital or 50% of the overall cost of the project being financed. In addition, any one country may not be extended loans totalling more than 10% of the Fund's capital. To date the Fund has extended more than fifty loans to a large cross-section of developing countries including Indonesia, Egypt, North Yemen, People's Republic of Congo and Niger.

Capital Structure: N.A.

Income: Believed to be retained.

Institution: Arab Bank for Economic Development in Africa

Location: Khartoum, Sudan

Size: Authorized and subscribed capital: U. S. \$231 million

Purpose: Established in 1974 under aegis of Saudi Arabia and League of Arab States. Operations commenced in 1975. Membership consists of 18 Arab states which have contributed from U. S. \$50 million (Saudi Arabia) to U. S. \$1 million (Jordan, Bahrain, Sudan, Syria, Egypt, Mauritania, Palestine) to initial capital. Purpose is threefold: (1) assist in financing economic development in African countries; (2) stimulate the contribution of Arab capital to African development; (3) help provide technical assistance required by Africa's economic development.

Source of Funds: Anticipated to be capital subscriptions by member states, plus borrowings (up to a limit of 2x paid in capital and reserves), deposits and retained earnings. Special funds also authorized.

Management Structure: Board of Governors (one from each member country) oversees general operations and policies. Initiation and implementation of policies and direction of management via Board of Directors (12, based on share ownership) through President (Chairman of Board of Directors) and staff.

Management of Fund: Internal policies prohibit disbursement of funds without prior provision for supervision of related project by bank staff.

Portfolio: Operations of bank may take the form of (1) loans and guarantees granted to development financing institutions; (2) participation in financing of major economic projects, especially agriculture and industry, to make up any deficit from external sources of financing; (3) technical and financial assistance aimed at identifying and structuring economic development projects, especially Afro-Arab projects; (4) technical and financial aid with respect to technological development. Eligible recipients limited to (1) African governments and agencies; (2) public and private companies, organizations and projects in African

Portfolio:
(cont'd.)

countries, majority owned by African governments or citizens; (3) mixed, African or Afro-Arab economic development companies. Present portfolio believed to consist of 20-25 loans in 20 African states. Maximum participation by Bank in any one project to be lesser of U. S. \$10 million or 50%; term of loans to vary based on project; and interest charges to vary from 1% to 6%. All loans and investments must be guaranteed.

Capital Structure:

See "Source of Funds" above.

Income:

Allocated to reserves or members' capital accounts by Board of Governors.

Institution: Arab Fund for Economic and Social Development

Location: Kuwait City, Kuwait

Size: Authorized Capital: KD 400 million (KD = Kuwaiti Dinars)

Purpose: The AFESD was organized by the Arab Council of the Arab League in 1968. Operations did not commence until 1973 at which time the Fund had acquired 21 country members. The purpose of the Fund is to participate in financing economic and development projects in all Arab member states through: (1) financing economic development projects on easy terms to governments and to public or private organizations and institutions, giving preference to economic projects vital to overall Arab development and to joint Arab projects; (2) encouraging directly or indirectly the investment of public or private capital in such a manner as to ensure the development and growth of the Arab economy; (3) providing technical expertise and assistance to the various fields of economic development.

Source of Funds: Believed to be solely member subscriptions at present.

Management Structure: Believed to be internal.

Management of Funds: Internal. Interest rates for loans made during 1975 ranged from 4% - 6%.

Portfolio: Loan criteria emphasizes those projects that (1) assist less developed Arab countries in narrowing existing income differentials; (2) have infrastructures that link Arab countries; (3) facilitate cross-border funds flows; (4) intensify exploitation of agricultural resources; (5) contain new ideas for public and private co-operation investment projects. Since 1973 the Fund has granted loans totalling KD 93.2 million for eighteen projects in nine countries. During 1976 AFESD is planning a major expansion of activities with cumulative loan commitments projected to rise to KD 177 million.

Capital Structure: Of the KD 400 million committed capital, KD 102 million was paid up by the member states as of February 1976. The outstanding balance is to be paid over the next three years.

Income: No information available on disposition of income.

Institution: Abu Dhabi Fund for Arab Economic Development

Location: Abu Dhabi, United Arab Emirates

Size: Authorized Capital: DH 2 billion; Paid-in-Capital
DH 1 billion (DH - Dirhams)

Purpose: To offer economic aid to Arab countries in support of their economic development through loans, participations, or guarantees. Also economic aid to African, Asian and other Islamic countries.

Source of Funds: Believed to be internal allocation from Abu Dhabi revenues.

Management Structure: N.A.

Management of Funds: Believed to be internal.

Portfolio: Loans outstanding to 11 countries totalling \$500 million at December 1975. Mostly connected with industry and manufacturing.

Capital Structure: Believed to be solely paid-in-capital at present.

Income: No information available with respect to distribution of income.

Institution: Islamic Development Bank

Location: Jeddah, Saudi Arabia

Size: ID = Islamic Dinars (equal to 1 Special Drawing Right
of the International Monetary Fund)

Capital: Authorized Capital: ID 2 billion
Paid-in-Capital: ID 755 million

Purpose: Bank established in 1975 based on agreement signed by members of Islamic conference in 1974. Purpose is to foster economic development and social progress of member and Muslim communities in accordance with Islamic principals. Present membership 29 countries.

Bank permitted under agreement to (1) purchase equity in productive projects in member countries, (2) participate in economic and social infrastructure projects in member countries; (3) make loans to public and private sectors for project financing in member countries; (4) establish and operate trust or special funds; (5) accept deposits and borrow funds; (6) assist members in matters relating to development, foreign trade and economic co-operation; (7) invest surplus funds. Bank is to be non-political and governed by economic considerations only.

Source of Funds: Members' capital subscriptions. Leverage permitted, but not yet used. Cash flow and income will also be used to fund activities of Bank in future.

Management Structure: Board of Governors, composed of one from each member state, to appoint Executive Directors and President, to be responsible for operations and selection of personnel. All officers of Bank must be from member states. Executive Directors approve all loans.

Management of Funds: All contracts will provide for internal follow-up and inspection by Bank.

Portfolio:

Selection and determination of investments to be based on the following criteria: (1) due regard to be paid to safeguarding interests of Bank, including obtaining guarantees; (2) the ability of recipient and/or guarantor to meet obligations to Bank; (3) consistency with principles of promotion of complimentary economic development among members, promotion of social and economic well being in member states and enlargement of employment opportunities; (4) avoidance of concentration of loans and investments in one country and maintenance of reasonable relation of loans and equity investments in each country; (5) reasonable diversification of equity investments; (6) in all cases, priority to be given to co-operative economic projects.

Loans to be for terms based on project requirements. In view of interest prohibition under Islamic law, service fee to be charged.

Capital Structure:

Presently all member states' equity.

Income:

May be distributed to members after general reserve equals 25% of subscribed capital.

Institution: Kuwait Fund for Arab Economic Development

Location: Kuwait City

Size:

Capital: Authorized Capital: KD one billion;
Paid-in-Capital : KD 328 million (KD - Kuwaiti Dinars)

Purpose: To assist Arab and other developing states in implementing development projects by making KD loans. The Fund may also guarantee the obligations of such states or corporate entities. The Fund may not finance more than 50% of non-local project cost.

Source of Funds: 400 million KD's out of government reserves according to the needs of the Fund. 600 million KD's out of public revenues of the State. Amount to be appropriated determined annually.

Management Structure: Prime Minister - Chairman of Board of 9 Directors elected for an initial term of two years. Chairman appoints Director - General of the Fund (upon recommendation of the Board) who has responsibility for financial and administrative matters.

Management of Funds: Net profits of the Fund are credited to a reserve account until reserves equal 20% of capital. Thereafter profits are added to the capital of the Fund.

Portfolio:	(KD Millions)
Cash	5.1
Bank deposits	174.5
Securities	110.4
Loans	62.0
Participations in Arab development institutions	25.9
Accrued interest	<u>6.9</u>
Total	384.8

Capital Structure: The Fund may borrow funds and give guarantees up to twice capital and reserves.

Paid-in-Capital KD 328 (March 1975)

General Reserve KD 56

Income: Financial information limited.

Total Income KD 16.6 million

Income from Investments 14.4

Income from Loans 2.2

Loan Disbursement: Loans made to 12 countries by sector

Transport and storage 35.6%

Agriculture 23.2

Industry 20.6

Power 20.6

100.0%

Institution: Fondo de Inversiones de Venezuela

Location: Caracas, Venezuela

Size: 12/31/75

Assets: BS 22,470,317,537 (1 Bolivar (BS) = U. S. \$0.233)
Capital: BS 20,532,175,000

Purpose: Fund established by Presidential decree in June 1974 following OPEC's increase in oil prices and consequent increase in Venezuelan government reserves. Stated purposes are fourfold: (1) to create a professionally managed reservoir for public funds that would be kept out of domestic money supply until needed, thereby avoiding inflationary pressures caused by over-rapid money supply growth; (2) to invest in external capital markets funds not immediately needed in Venezuela; (3) to assure a rational and diversified internal investment program designed to reduce Venezuela's dependence on oil revenues; (4) to generate economic growth that creates full employment, redistributes national income and encourages technological independence.

Source of Funds: Yearly allocation of oil revenues, the size of which is determined at the highest level of government and approved by President. Allocations in 1974 and 1975 aggregated slightly in excess of U. S. \$5 billion.

Management Structure: Fund operations overseen by General Assembly (consisting of State Ministers and high level government officials) which has power to dictate policy. Major policy directives typically originate from high level political sources and the Fund's internal Executive Directorate (2 internal and 2 external) and are ratified by Assembly. President of Fund (State Minister) is crossroads for policy and routine management operations. Major investment decisions made by Executive Directorate and all external investments discussed at senior management level committee meetings.

Management of Funds: Internal staff divided into 3 groups by function: International Financial Group (investments in external markets); International Financial Cooperation Group (analysis and monitoring of loans to International and non-Venezuelan Government Agencies); National Investment Group (review and monitoring of debt and equity investments in Venezuelan entities). All groups have specialized sub-groups.

Institution: Alberta Heritage Savings Trust Fund

Location: Edmonton, Province of Alberta, Canada

Size:
Capital: C \$1,500,000,000

Purpose: Fund established in May 1976 to invest a substantial portion of non-renewable resource revenues for the benefit of the people of Alberta in future years.

Fund permitted by Legislative Act to (1) invest up to 20% of its assets in projects which will provide long-term economic or social benefits to the people of Alberta but which will not by their nature yield a return to the Fund, provided the moneys are first specifically appropriated from the Fund by an act of the Legislature; (2) invest up to 15% of its assets in loans to the Crown in right of Canada or of any other province of Canada or in loans guaranteed by the Crown in right of Canada or of any other province of Canada; (3) make investments the Investment Committee, or the Legislative Assembly as expressed in an Assembly resolution, feels will yield a reasonable return or profit to the Fund and will tend to strengthen and diversify the economy of Alberta; (4) invest or reinvest moneys not invested according to 1, 2 or 3 above in any or all of the following: (a) evidences of indebtedness of, or fully guaranteed by, the Canadian Government, any Canadian provincial government, any Canadian municipal corporation, the government of a country other than Canada, a chartered bank or treasury branch, or any corporation if authorized by the Canadian and British Insurance Companies Act; and (b) mortgages or hypothecs of real estate or leaseholds in Canada under certain circumstances.

Source of Funds: Original funding of Canadian dollars \$1,500,000,000 plus 30% of the non-renewable resource revenues to be received in fiscal 1976-77 (and each fiscal year thereafter if the Legislative Assembly enacts a Special Act authorizing such annual transfer from the General Revenue Fund) on a monthly basis.

- Management Structure: Heritage Savings Trust Fund Investment Committee consisting of all 24 members of the Provincial Executive Council (including Provincial Ministers and Treasurer) responsible to the Legislative Assembly in the operation of the Fund. Actually managed in the Provincial Treasurer's Office.
- Management of Funds: The Provincial Treasurer holds and administers the Fund in accordance with the Act. Fund has separate accounting record. The Investment Committee, except when directed by the Legislative Assembly, approves investments and dispositions of investments, although the Provincial Treasurer invests, reinvests and disposes of such with respect to Fund activities in investment category 4 under "Purpose" above. While all funds are managed internally, outside advisors may be used to review and package potential investments.
- Portfolio: As under "Purpose" above. No authority to guarantee the credit of others nor is it intended to allow for other than short-term borrowings from the General Revenue Fund in anticipation of fund transfers (i.e. - no leverage allowed).
- Capital Structure: See "Source of Funds", "Portfolio" and "Income".
- Income: The income of the Fund accrues to and forms part of the Trust Fund.

September 30, 1977

Ted Swick
White, Weld & Company, Inc.
One Liberty Plaza
91 Liberty Street
New York, NY 10006

Dear Mr. Swick:

Enclosed is the original of the contract between the Division of Legislative Finance and your firm. If you find it in order, please sign it and return it to our office.

Under the contract, we would like your firm to:

1. Be present to offer financial advice to the Committee at the Southeastern Hydropower Conference on October 13 and 14 in Sitka.
2. Prepare a report for the Committee's October 20 and 21 meeting in Juneau. The report should include but not be limited to, descriptions of principles in management of trust funds, performance of various sorts of trusts and recommendations to the Committee on how to structure the Permanent Fund as a financially viable, politically accountable trust fund.
3. Collect any available information on the existence and location of any capital gap in Alaska and be prepared to offer comment on any other capital gap studies being compiled.

To help you in planning for the meetings, the information is as follows:

October 13--1:30 p.m. Centennial Building, Sitka;

October 21--9:00 a.m. Conference Room 123, Juneau.

Ted Swick

-2-

September 30, 1977

Additional information on requirements for October 14 and 20 will be forthcoming as soon as I get my hands on it.

Sincerely,

A handwritten signature in cursive script that reads "Mike Doogan".

Mike Doogan
Administrative Assistant

MD:LAD

Enclosure

WHITE, WELD & CO.
INCORPORATED

ONE LIBERTY PLAZA
91 LIBERTY STREET, NEW YORK, N. Y. 10006

THEODORE P. SWICK
FIRST VICE PRESIDENT
212/285-2153

CABLE ADDRESS-"WHITEWELD"

March 17th, 1978

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

Gentlemen:

In performing our duties under contract with the House Special Committee on the Alaska Permanent Fund we have attended drafting and discussion sessions, recommended provisions and language, opined on alternatives, advised on reports of other consultants, provided definitions and customary meanings of phrases and words and, in general, participated in the deliberations of the Committee in the creation of House Bill No. 596 in the Legislature of the State of Alaska, Tenth Legislature-Second Session.

We are satisfied that Bill No. 596 is a workable bill that facilitates and accomplishes the will and intent of the Committee.

It was a pleasure for us to have participated in this project. Messrs. Fuhrmann, Greeley, Plaia and others of our firm congratulate you on the Bill and wish it smooth traveling through the legislative process. We understand that we may be called upon for further consultation during the legislative session.

Very truly yours,



Theodore P. Swick

TPS/vmr