

SCOMM

#18.26

Alaska State Legislature

TELECONFERENCE HEARINGS



DATE:

LOCATION:

SUBJECT:

NAME	REPRESENTING	ADDRESS	PHONE	HERE TO OBSERVE	HERE TO TESTIFY
Commonwealth,	cont.				
Best Beneville					
Dave Chatfield					
Paul Wilcox					
Barbara Scammon	Anc. Coz C				
Keith Godfrey	Anchorage				
Vern Padgett	Anchorage				
Robert Gillam	Home Fed. Savings				
Joe L. Norris	ALKA Processors				
Seibel	- Anc				
Bonnie W.	free - ALKA Processors				

TELECONFERENCE HEARINGS



DATE: 3/6/80

LOCATION: ~~KOTZEBUE~~SUBJECT: FCC - PERMANENT FUND
KODIAK / KOTZEBUE / BETHEL

NAME	REPRESENTING	ADDRESS	PHONE	HERE TO OBSERVE	HERE TO TESTIFY
BERT GRIEST ^{GLIST}	N.A.N.A.	KOTZEBUE	AG LOANS 3-5		
DAVID W. THOMPSON	SELF	KODIAK			
JEFF SMITH ✓	Meuneluk Assoc.	KOTZEBUE			
~~XXXXXXXXXX~~ (308)		~~Bethel~~			
Bob Buttane	SELF	Bethel —			
John Angiak	AVCP	Bethel —			
Parsons	RTD.C.G.	KDK SCHOOL LUNCH			
Simons	HA				
	ALB & EMPLOYMENT & TRG				

Alaska State Legislature

CONVERT/ASSETS
INTO LIQUIDITY

Page 1 of 2

TELECONFERENCE HEARINGS



DATE: 2/28/80
LOCATION: FAIRBANKS
SUBJECT: PERM. FUND

NOTE:

WITNESSES

WILL NOT NECESSARILY SPEAK IN THIS ORDER,

NAME	REPRESENTING	ADDRESS	PHONE	HERE TO OBSERVE	HERE TO TESTIFY
Russell Wertz	Himself				X
Barry Brown	Local Realtor/Himself				X
Ralph Jensen	Himself	✓ INVEST IN AK RE \$			X
Bob Day	Alaskans for a Stable Economy				X
Manton Wulbold	" "				① X
Marc Thyrring	Alaskan Businessmen's Coalition	SELF			X
Shann Corr	Alaskans for Stable Economy				X
Laurence Jefferson	Local Contractor Self	FINANCING			X
Jim Messer	Self	32 yr. / PETROCHEMICAL PLANT			X
Ralph Seekins	Self				X
Wally Burnett 27 yrs	Self	• COLLATERAL REQ - REDUCE			X

Alaska State Legislature

TELECONFERENCE HEARINGS



DATE: 2/28/80
LOCATION: FAIRBANKS
SUBJECT: PERM. FUND

NAME	REPRESENTING	ADDRESS	PHONE	HERE TO OBSERVE	HERE TO TESTIFY
Bob Dempsey	Self				X
Larry Orsini	Alaska Bus Coalition and Self				X
STAN STEVENS	N. STAR MARINE - ST LOUIS				
	BANK PARTICIPATING				
Bill Perry	Reg. 20's				
Andrew Klinefield	Self				
Ralph Seehins	Self	ONE entity / SHARING CASH TAX RELIEF			
ADAM PAULNATIK	ENERGY LOAN				

TELECONFERENCE HEARINGS



SUBJECT:

JUNEAU

PERM. FUND

[illegible]

TELECONFERENCE HEARINGS



DATE: 2/21/80
LOCATION: Anchorage
SUBJECT: Permanent Fund

NAME	REPRESENTING	ADDRESS	PHONE	HERE TO OBSERVE	HERE TO TESTIFY
Jack Johnson	Alaska Bus. Coalition	FINANCING			X
Don Loesche	Totem Air				X
Douglas B. Hulk	Totem Air				X
David A. Bates	Totem Air				X
~~Larry~~ Korkowski	(Observer only)				
Chris Stephens	Himself				X
George Oliver	Anch. Board of Realtors	(Observer only)		X	X
John L. Young	Mid-Gulf Seafoods	✓ VESUIT			X
Commonwealth North (many)					X
Brian Sheffield					
Harry Donahue					

RELIEF
ELIMINATE
9 CORP

PLEASE NOTE: THE FOLLOWING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

The Kohler Agency

☒ 825 COLLEGE ROAD
FAIRBANKS, AK 99701
(907) 452-8138

☐ BOX 5222
NORTH POLE, AK 99705
(907) 488-6185

TO:

Representative Malone
Pouch V
Juneau, Alaska 99811

DATE 3-12-80

FILE NO.

ATTENTION

SUBJECT HB 279, Sec. 45.96.160

In the form of SB1 & HB161 introduced by HOHMAN 2/23/79

☐ URGENT
☐ Soon as possible
☐ No reply needed

MESSAGE

Dear Rep. Malone,

I would like to go on record with you and other members of the Free Conference Committee (Freeman, Chatterton, Ferguson, Hohman and Mulcahy) as being totally opposed to Sec. 45.96.160 as subject above. I lodge this protest from two standpoints.

- 1) As an independent insurance agent I object to the State of Alaska going into the insurance business in direct competition to me and scores of other agents around the state.
- 2) As a citizen and taxpayer I object to offering a rate (six-tenths of one percent) which is totally unrealistic from any actuarial standpoint and which will result in tremendous losses from subject insurance program. Such losses ~~SIGNED~~ will then be subsidized by all the citizens of the state either in additional taxes or loss

REPLY

of revenues that could be used for other purposes.

Your assistance in removing this or any similar proposals would be appreciated. Incidentally, although I deem it prudent to require insurance I do not consider that mandating insurance is a good idea either.

Sincerely,

SIGNED

John P. Kohl



Alaska House of Representatives



HUGH MALONE

POUCH V
JUNEAU
99801

P. O. BOX 9
KENAI
99611

April 3, 1980

Mr. John Kohler
The Kohler Agency
825 College Rd.
Fairbanks, Alaska 99701

Dear Mr. Kohler:

Thank you for your letter of March 12 regarding the section of HB 279 and SB 1 creating an insurance reserve account. As I believe you know, HB 279 was identical to SB 1 and was introduced in the House only so that the House Permanent Fund Committee could have the opportunity to hold hearings on it last year. As you probably also know by now, a permanent fund management bill, FCCS for HCS for SB 161, passed both houses this week and will shortly be signed into law. This bill bears no resemblance to SB 1 and contains nothing involving insurance. However, SB 1 still survives as a loan reform bill and could possibly come before the free conference committee on that issue when the committee is appointed in a few weeks. You may wish to keep in touch with the Fairbanks delegation regarding your concerns.

Sincerely,

Hugh Malone

HM:nl

JOHN W. McKEE III

FSA, MAAA, CLU
Vice President

The Horace Mann Insurance Companies
1 Horace Mann Plaza
Springfield, Illinois 62715
(217) 789-2500

insuring
America's
Teachers **Horace Mann**

March 11, 1980

Hugh Malone
House of Representatives
Pouch V
Mail Stop #3100
Juneau, Alaska 99811

Dear Mr. Malone:

As a member of the life insurance industry concerned for the policyholders of the state of Alaska, I urge your support for Alaska Senate Bill 111. This bill would authorize a maximum interest rate of 8% for loans on life insurance policies issued in the future; the bill would not affect policies issued before its effective date.

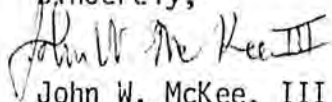
Presently 48 states (including D.C.) now permit an 8% maximum, including 25 which have no limit, 22 of which recently changed from 6% to 8% and New York which changed from 5% to 8% in 1977. Passage of this bill will reduce the cost of life insurance, since many major companies will lower net premiums in Alaska if this bill is passed. If the bill is not passed, most Alaska residents will continue to pay more for life insurance than residents of other states.

In 1958 life insurance companies were investing in bonds at about 4 1/2%, and the Alaska limit on policy interest rates was 6%. In 1978 the companies' new investments in bonds were made at about 9 1/2% and the Alaska limit on policy loan interest rates was still 6%.

The 8% rate for policy loans has been recommended by the National Association of Insurance Commissioners and Senate Bill 111 is supported by the American Council of Life Insurance. Similar legislation has been supported by life underwriters and their organizations in many states.

After your thoughtful consideration of the above points, I urge you to support this bill.

Sincerely,



John W. McKee, III
Vice President Life Operations
HORACE MANN LIFE INSURANCE COMPANY

JWM:ml
9397A



KENNETH A. MURRAY INSURANCE, INC.

AUTO • BONDS • FIRE • LIABILITY & WORKMENS COMPENSATION

300 BARNETTE STREET P. O. BOX 1007

FAIRBANKS, ALASKA 99707

Telephone 456-6646

March 20, 1980

Representative Malone
House of Representatives
Pouch V
Juneau, Alaska 99811

RE: Permanent Fund HB 279

Dear Sir:

No doubt you have seen the above bill and formed opinions on various aspects of it. My remarks will be limited to SECTION 45.96.160, Fire Insurance and Liability Reserve Account. SECTION 45.96.160 appears to put the state in the insurance business, which I believe is illegal by statute and also in direct competition with private industry. In addition, SECTION 45.96.160 of the bill is setting rates, 6/10 of 1%, for providing both property and liability coverage, a very simplistic rate structure, unmindful of the extreme variations in risks and in any case appearing to be well below any actuarially rational rate structuring.

Additionally as a private citizen, I feel the insurance program above, is a careless, irresponsible misuse of my state funds. Last as a businessman and private citizen, I believe the primary duty of government is to govern; nothing more, nothing less.

Therefore, I urge that you please review SECTION 45.96.160 of HB 279 and make every effort to have this section deleted from HB 279.

Sincerely,

Kenneth H. Murray

KHM/hjh



EXECUTIVE OFFICES
PLAZA 201 EAST THIRD AVENUE
ANCHORAGE, ALASKA 99501
(907) 274-6631

March 25, 1980

The Honorable Hugh Malone
Alaska State House of Representatives
Pouch "V" - State Capitol
Juneau, AK 99811

Dear Hugh:

I enjoyed appearing before the committee last Wednesday and having the opportunity to have an open discussion at dinner regarding the challenges of taxation, loan programs and the permanent fund.

Our report will be finished very soon and we hope it's not too late to provide input on these important topics.

On behalf of the Resource Income Committee of Commonwealth North, thank you for taking the time to meet with us.

Sincerely,

William J. Sheffield, Chairman
Resource Income Committee
Commonwealth North

1h



Alaska State Legislature

House of Representatives

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

March 7, 1980

Mr. Bob Greely
1501 Page Mill Rd.
Palo Alto, Ca. 94304

Dear Bob:

Enclosed find a packet of material from Pete Bushre and copies of the House and Senate Permanent Fund bills on which I have marked the sections having to do with the investment of funds.

You're scheduled to speak before the free conference committee on Wednesday, March 19. The meeting begins at 1:30, and we'll plan to get together sometime before that to review testimony.

Best wishes,

Nancy
Nancy Lord
Aide to Representative Malone

Bache
Bache Halsey Stuart Shields Incorporated
Bache Plaza, 100 Gold Street
New York, N. Y. 10038 (212-791-1000)

Theodore P. Swick
Senior Vice President

January 29, 1980

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

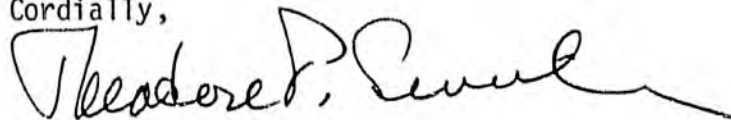
Gentlemen:

Please find enclosed a contract for our services during the current legislative session. I have used a form of a previous contract when we acted for the House Special Committee on the Permanent Fund and hope it meets with your approval. Please make whatever changes you find necessary and do not hesitate to call me to discuss any of the provisions.

We are forwarding an identical contract for approval to the House Finance Committee.

We look forward to continuing to serve you and to visit Alaska in the near future.

Cordially,



enclosure

CONTRACT BETWEEN
STATE OF ALASKA
DIVISION OF LEGISLATIVE FINANCE
AND
BACHE HALSEY STUART SHIELDS INCORPORATED

The parties of this agreement are the Division of Legislative Finance, hereinafter referred to as the "Division" by and for the House Special Committee on the Permanent Fund and Bache Halsey Stuart Shields Incorporated, 100 Gold Street, New York, New York 10038.

THE PURPOSE OF THIS AGREEMENT is to provide, through the Division, professional services in relation to the Alaska Permanent Fund, Alaska Loan Programs, Financial and Debt management procedures and financial considerations for legislative action.

IT IS THEREFORE MUTUALLY AGREED THAT:

CLAUSE I. - STATEMENT OF WORK

The Contractor shall provide consultation on financial questions connected with the above.

The Contractor shall coordinate, work with, and exchange information with other consultants as directed by the Chairman.

CLAUSE II. - STANDARDS OF PERFORMANCE

The work shall be done in accordance with generally recognized standards of professional consulting services. In the event that any work does not meet these standards, the Project Director may serve written notice and satisfactory correction shall be made within ten (10) days. Completion dates for any portion(s) of the work shall be set by mutual agreement. Failure to complete the work on time shall result in liquidated damages of ten percent of the contract amount plus one hundred dollars (\$100) per day for each day of delay beyond the completion deadline, except for delays due to causes beyond the control and without fault or negligence of the Contractor. Liquidated damages shall not exceed the total payments allowed under the contract and may be deducted from payments that are owing.

Any dispute concerning a question of fact that relates to the Contractor's performance, if not disposed of by agreement between the parties, shall be decided by the Project Director, who shall notify the Contractor. This decision, unless appealed to a court of competent jurisdiction within ninety (90) days of the completion or termination of the contract, shall be final and conclusive.

CLAUSE III. - PERIOD OF PERFORMANCE

- (A) The period of performance under this contract shall commence on February 1, 1980, or on the date both parties sign this agreement and expires on the close of the ~~Session~~ Session, ~~Chenault~~ Alaska State Legislature, provided, however, that the Chairman may grant an extension for additional periods.
- (B) The agreement may be terminated:
- (1) by the Chairman. Written notice of the necessity for doing so shall be delivered to the Contractor. Payment shall be made for satisfactory work; or
 - (2) by mutual consent of the parties to this agreement.

CLAUSE IV. - PROJECT DIRECTORS

Work assignments may be made by the Chairman of the House Special Committee on the Permanent Fund or his designee.

CLAUSE V. - COMPENSATION AND METHOD OF PAYMENT

- (A) Compensation under this contract shall be (1) at the rate of \$2,000 per month for consulting services; (2) billings for special reports in accordance with the following fees not to be less than \$5,000 for each special report, and (3) out of pocket expenses, including airfare, communications, lodging and meals which shall be billed as separate items. Receipts shall be required.

Fees for special reports to be billed in accordance with the following hourly and maximum per diem rates:

	<u>HOURLY</u>	<u>PER DIEM</u>
Senior Vice President	\$ 100.	\$ 800.
First Vice President	80.	610.
Vice President	60.	480.
Others	40.	320.

CLAUSE VI. - REPORTS

The Contractor shall keep the Chairman informed as to the progress of the work performed under this agreement and shall provide progress reports as specified by him.

CLAUSE VII. - RECORDS, DOCUMENTS, AUDIT

The Contractor shall maintain accurate records which are subject to inspection by the Division at all reasonable times. All documents, reports and writings

produced in the course of the work performed under this contract are, upon delivery to the Division or at the termination of this agreement, the property of the Division. The Committee shall have the full right to use these documents for its purposes, or otherwise, when and where the Committee may designate without any claim on the part of the Contractor for additional compensation.

CLAUSE VIII. - ALL WRITINGS CONTAINED HEREIN

This agreement contains all the terms and conditions agreed upon by the parties. No other understandings, oral or otherwise, regarding the subject matter of this agreement shall be deemed to exist or to bind either party to this agreement.

IN WITNESS WHEREOF, the parties have executed this agreement on the date indicated.

CONTRACTOR:

STATE OF ALASKA
DIVISION OF LEGISLATIVE FINANCE

By _____
Theodore P. Swick

By: _____

Title

Title

Date

Date

APPROVED BY:

Hugh Malone, Chairman
House Permanent Fund Committee

Date

PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.

February 26, 1980

Mr. Bob Richards
Executive Vice President
Alaska Pacific Bank
Box 420
Anchorage, AK 99510

Dear Mr. Richards:

Representative Malone has asked that I send you the latest revenue estimates of Legislative Finance. I draw your attention to our "most probable" case. This assumes a compound budget growth rate of 15% (which includes a long-run inflation rate of 7%) and the constitutional minimum being paid into the Permanent Fund (about 1/8 of all oil revenues). With the last OPEC price increases and the decontrol of domestic prices in October 1981, (and no revenues from the Beaufort other than from the recent cash bids) the numbers are stunning.

Oil and non-oil revenues, and interest earnings on both, will total \$31.9 billion through 1985 and \$125.5 billion through 1995, just fifteen years away. Spending will total \$10.7 billion through 1985, \$68.8 billion through 1995. A surplus of \$56.7 billion will accrue over the longer period, supposing that kind of money would ever be left alone. Even if an extra \$1 billion a year were paid into the Permanent Fund and \$1 billion a year were given to the public, there still would be a surplus of about \$27 billion.

Alaska has opportunities for its future that are unrivaled among the American states. But we share the deep concern of Commonwealth North that our money could simply overwhelm our economic, social, and finally, our public life.

Sincerely,

James B. Rhode
AA to Rep. Malone, Chairman
House Special Committee on
the Permanent Fund

Enclosure

JBR:jk

February 26, 1980

Mr. Bill Sheffield
Commonwealth North
201 East 3rd Avenue
Anchorage, AK 99501

Dear Mr. Sheffield:

Representative Malone has asked that I send you the latest revenue estimates of Legislative Finance. I draw your attention to our "most probable" case. This assumes a compound budget growth rate of 15% (which includes a long-run inflation rate of 7%) and the constitutional minimum being paid into the Permanent Fund (about 1/8 of all oil revenues). With the last OPEC price increases and the decontrol of domestic prices in October 1981, (and no revenues from the Beaufort other than from the recent cash bids) the numbers are stunning.

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Sincerely,

James B. Rhode
AA to Rep. Malone, Chairman
House Special Committee on
the Permanent Fund

Enclosure

JBR:jk

February 28, 1980

The Honorable Frank Ferguson
Pouch V
Juneau, Alaska 99811

Re: HB 279, Sec. 45.96.100

Dear Senator Ferguson:

- 61 -
I wish to express my strong opposition to the section of the Permanent Fund bill #HB 279, Sec. 45.96.160 relating to the State of Alaska entering into the sale of insurance to borrowers of State funds.

This is in direct opposition to the stand of the Independent Agents & Brokers of America who have been fighting in congress for years to prevent lending institutions from forming holding companies to sell insurance to their borrowers. This organization, representing more than 33,000+ insurance agents and brokers in the nation, has spent many millions of dollars opposing any such legislation and so far have been successful in their efforts. The Permanent Fund Bill 279 falls in the same category and puts undue pressure on the insurance buying public to purchase their insurance from a lending institution - in this case - the State of Alaska.

The State now receives an income of approximately \$11,000,000 annually from the insurance industry. HB279 will decrease this revenue and increase the burden on the taxpayers.

This bill violates the insurance statutes in the State of Alaska as well as the coercion statutes.

In reading section 45.96.160 the following items immediately come to mind:

1. Six-tenths of 1% of amount of loan could be much less than six-tenths of 1% of the property values at risk.
2. In the event of a large liability claim it could deplete the reserve account in one action.
3. If the borrower is insured to full value of the property but the loan is for a much lesser amount it would appear to be an invitation to arson.
4. No provision made for proper adjustment of both fire and liability claims.
5. This section appears to have been written without much thought as to the many adverse consequences that could occur.

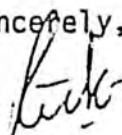


February 28, 1980
Page Two

The Alaska Commercial Fishing Boat Insurance Association, recently formed to sell insurance to commercial fishermen having loans with the state, also is in direct violation of the insurance and coercion statutes and should be ordered to cease and desist for the same reasons that Sec.45.96.160 should be deleted from HB#279.

We would appreciate your efforts to delete this section in it's entirety and look forward to your prompt response.

Sincerely,


Richard E. Wagner
President

cp .

cc: Richard Hardcastle, President
Alaska Independent Insurance Agents & Brokers, Inc.

cc: Joe McLean, Ely, Guess & Rudd



Alaska State Legislature
Senate

JUNEAU, ALASKA

February 4, 1980

William J. Sheffield, Chairman
Resource Income Committee
Common Wealth North
935 West Third Avenue
Anchorage, Alaska 99501

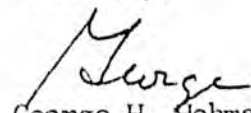
Dear Bill:

Thank you for the letter dated January 31, 1980 relating to the utilization of the State's resource income. I would like to point out that in response to your concerns about acting too hastily and thereby foreclosing vital action on other issues of paramount importance to Alaskans that would tend to strengthen the economy and curb government growth, I did submit to the Chairman of the House Conferees on Senate Bill 161, a schedule for public input into the Free Conference Committee deliberations on Senate Bill 161. I enclose a copy of that proposed schedule and as is apparent, it provides for ample opportunity for input from citizens in the major communities of the state. I would appreciate during either one of the teleconference or video conference sessions out of your community that you organize your group for concise input.

I look forward to receiving your recommendations and suggestions in written form which your letter indicates will be prepared by the end of February.

My thanks to you and your committee for the opportunity to meet with you in Anchorage regarding the State's resource income and its' wise utilization.

Sincerely,


George H. Hohman, Jr.
State Senate

GHH/hid

William J. Sheffield
February 4, 1980
Page 2

cc: Board of Directors - Common Wealth North
Governor William A. Egan, Co-Chairman
Governor Walter J. Hickel, Co-Chairman
Max Hodel, President
Helen Fischer, Vice-President
Morris Thompson, Vice-President
Robert Hartig, Secretary
Millett Keller, Treasurer
Carl Brady, Sr.
Larry Carr
Henry Hedberg
Loren Lounsbury
Dr. Glenn Olds
Glenn Simpson
William J. Tobin
Malcolm B. Roberts, Executive Director

Alaska State Legislators

Enclosures: William J. Sheffield, 1/31/80 Letter
Suggested Schedule for Public Input Free Conference Committee on
CS for Senate Bill 161

JOSEPH A. McLEAN
ATTORNEY AND COUNSELLOR AT LAW

TELEPHONE (907) 586-3210

P. O. Box 1774
MENDENHALL BUILDING
JUNEAU, ALASKA 99802

FEB 6 1980

February 6, 1980

The Honorable Oral Freeman
House of Representatives
Capitol Building, #115
Juneau, Alaska 99801

Dear Oral:

I was very happy to hear that you are one of the members of the Free Conference Committee to draft the final legislation for the Permanent Fund. From my standpoint this is likely to be the most important legislation to come out of the eleventh session, next to the budget.

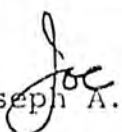
Aside from practicing law, which is my main endeavor, I am also a registered Investment Advisor with the Securities and Exchange Commission, albeit an inactive one as my involvement falls under the definition of legal advice, and exempt from registration under the Alaska Security Law.

During considerations of proposed Permanent Fund legislation in the past, I have worked with the House Special Committee and have testified, offering assistance in drafting language for some of the bills. Representative Gruening has asked that I comment on some provisions which now may be of interest to you, a copy of which letter is attached.

I am concerned about Section 37.13.140, GAINS AND LOSSES, and in my letter suggest alternate language with my reasoning.

I would be very pleased to discuss this and other aspects of the proposed language with you at any time, and look forward to an opportunity to appear before the Committee.

Respectfully yours,


Joseph A. McLean

JAM:mh
Enclosures

JOSEPH A. McLEAN
ATTORNEY AND COUNSELLOR AT LAW

TELEPHONE (907) 586-3210

P. O. Box 1774
MENDENHALL BUILDING
JUNEAU, ALASKA 99802

to JOE in
THANKS
MB

February 15, 1978

The Honorable Clark Gruening, Chairman
House Special Committee on the Alaska
Permanent Fund
Juneau, Alaska 99801

Dear Clark:

Indeed it was an honored privilege for me to have had the opportunity of testifying before your committee last Thursday evening. I appreciated the interest and the time extended, particularly with reference to questions pertaining to the points I wanted to respectfully call to your attention.

In response to your suggestion that I propose amended language for the sections under question, I am please to be able to offer the following remarks, referring separately to each of the three House Bills.

HOUSE BILL 596

Sec. 37.13.060 TERM OF OFFICE. On page 7, line 19, after the word "reappointed", I would propose adding the language "for one term only". Limiting a member to a total of eight years, or at the most twelve years, would avoid any chance of a czar-like control of, or by certain members of the Board. This suggestion also applied to section 44.55.040 and Section 44.55.080.

Sec. 37.13.140, on page 11, should be changed in my opinion, from GAINS AND LOSSES to ANNUAL REPORT. I would propose beginning with the following language:

ANNUAL REPORT. At the end of each fiscal year the Board shall publish an annual report, including financial statements audited by independent outside auditors; a statement of funds received and investments made; a list of all purchases and sales with the respective gains or losses for each; and a brief description of investment activity during the period as it may relate to the economic outlook. The report shall also include the acquisition cost of each security held and the market price prevailing at the date of said report.

Then on an optional basis, follow with the existing provisions:

At the discretion of the Board, treatment of losses on the sales of securities, not offset by gains on the sales of securities during that year, may be computed, with a portion of these losses to be deducted each fiscal year from the interest and dividend income and the resulting amount of interest and dividend income added to the principal of the fund. Losses taken on the sales of bonds may be accumulated over a period equal to the average remaining life of the bonds sold, and losses taken on the sales of stocks may be accumulated within a period of five years unless these losses are offset by gains on future sales of securities. In any fiscal year in which the gains on the sales of securities exceed the losses on the sales of securities the excess shall be added to the principal of the fund.

Reasons for this were spelled out in my oral testimony before the committee. The first paragraph requires full disclosure of the portfolio, both realized and unrealized, without the figures being disguised in apportionment of the losses over a period of time.

Section 44.55.040 pertaining to the Enterprise Investment Corporation should delete the State employed executive, change the Board to seven public members, and ease up on the investment experience qualification;

(a) There is established the Alaska Enterprise Investment Corporation Policy Board consisting of seven public members appointed by the Governor with due regard for geographical representation and confirmed by a majority of the members of the Legislature and joint session. At least four of the public members shall have recognized business competency or experience in investment finance. The Board shall elect one of its members as chairman and other officers deemed desirable. No member may be appointed to the Board who has not been a resident of the State of Alaska for at least five years.

Section 44.55.080 INVESTMENT COMMITTEE. The qualifications of the Committee should be clarified and I would suggest the following language to replace the sentence beginning on line 17:

Members of the Committee shall be persons of recognized business competence with experience in investments or finance or other business management-related fields. Residence qualifications are the same as those established for the Alaska Enterprise Investment Corporation Policy Board. A member may be reappointed once only and continue to serve until his successor is appointed.

their terms of office, the accounting of the annual report and the encouragement for participation with other lenders. Other than these I do not have any strong opinions.

I would respectfully point out that as a matter of public policy, in the incorporation of this bill into law, the Committee may want to consider toning down some of the FINDINGS in Section 37.12.020. By this I mean the deletion of the word "high" in line 23 and the word "unstable" in line 24, substituting "seasonable". And on the same line substituting "lessened" for the word "mitigated".

Also on line 27 of the same page it may be more appropriate to substitute the word "seasonal" for "sporadic" and "nonstable". It must be remembered that this law will be examined closely by investment bankers and other lenders outside the State of Alaska, and too dismal an outlook, especially under formal findings, may not be in the best interest of the State.

HOUSE BILL 595
GUARANTEES TO ELECTRICAL FACILITIES

I would respectfully ask the Committee to consider this in the light of special legislation supporting the electric industry. Constitutionally, I would regard the proposition rather skeptically, though I have not researched nor am I intending this as a formal opinion. Moreover again, as stated earlier in this letter, I envision major conflicts when the industry approaches the State Public Utilities Commission for rate adjustments.

Respectfully submitted,

Joseph A. McLean

JAM/k1

ANDREW J. KLEINFELD

Attorney at Law

200 NORTH CUSHMAN STREET — SUITE 201

FAIRBANKS, ALASKA 99701

TELEPHONE (907) 452-1305

February 1, 1980

Representative Fred E. Brown
Alaska State Legislature
Pouch "V"
Juneau, Alaska 99811

Dear Fred:

This is a suggestion for how to manage and invest the State's permanent fund.

I suggest that the permanent fund money be deposited entirely in Alaska banks. It should not be concentrated, but should be distributed among all of the banks, probably on the basis of a pro rata relationship to the bank's assets, so that bigger banks get larger amounts of funds and smaller banks get smaller amounts of funds, but all get proportional shares.

Interest on these deposits should be sufficient now to fund a substantial portion of the state's budget. Within another couple of years, if the state moderates its fantastic spending spree, the interest should be enough to maintain the state budget in perpetuity, with no need at all for taxes except severance taxes on oil.

This approach would have numerous advantages to all Alaskans.

First, the investment program for the funds would be different according to the investment policy of each bank. This means that if some investment managers make foolish mistakes, the mistakes would not affect the whole fund, as they would with a state-managed fund.

Second, the deposits would provide a vast pool of investment capital in Alaska, which would make it easier to borrow money for homes and businesses in Alaska than anywhere else in the United States. To avoid defaulted loans, banks would favor stable Alaska residents over new arrivals.

Third, this plan would eliminate the need to hire another government bureaucracy to administer the loan funds. Each bank has its own little bureaucracy to administer loans, on its own private payroll, recruited and trained at no public expense.

Fourth, this plan would reduce the likelihood of massive corruption of State officials. I think it is inevitable that if State officials have hundreds of millions of dollars to loan out or invest, a certain number of them would take bribes, subtle or direct, to influence their policy. We have already seen the beginnings of significant corruption in Alaska government, as in the Fairbanks school bus scandal and the Anchorage personnel scandal, and corruption is likely to expand as the amount of money distributed by State officials expands. Banks run some of the same risks, but they are smaller, so corruption is more isolated, will tend to affect less money, and will be more likely to be found out.

Fifth, by vastly expanding the supply of investment capital in the State while permanently reducing or eliminating the need for taxation, this plan would create an extremely attractive investment climate, fostering the spread and growth of many kinds of business and industrial activity in Alaska. Though it would be best to minimize strings on the deposits, to take advantage of the banks' expertise in loan administration, you could require that a percentage, increasing each year, of the deposits be loaned to Alaskans for investments or other use in Alaska. Texas followed a program something like this and made itself a very wealthy state, by using oil money to capitalize its banks and to eliminate the need for taxation. Texas is a good place for business to be, so its economy flourishes. For those of you who think that business interests deserve little consideration, may I remind you that the main beneficiaries of business are the employees and the customers. A man who can take his wife and children to McDonald's for supper, and go home with change from a \$10 bill, benefits more from the existence of McDonald's in Fairbanks than Raymond Kroc and the other stockholders in McDonald's. When business is absent, as in much of rural Alaska and the smaller Alaskan towns, then everyone who would like to buy something, go out for the evening to do something other than drink, or have something repaired, suffers by its absence. Many Fairbanksans are broke now because business is terrible here, and they are not helped much by the fact that other Fairbanksans working for the state government are getting paid very high salaries.

Sixth, this policy would avoid politicizing all major investment decisions in Alaska. If you have a state-managed permanent fund, it will be one of the biggest investment banks in the world. All major investment decisions in the state will be government decisions, on account of the need for permanent fund participation. It is bad for government and bad for investment policy for this to take place. Great bitterness and contempt would be aroused against government from disgruntled classes of unsuccessful applicants to the fund, and from the citizenry as a whole when the fund made large and costly errors, as any investment bank does. There would be great political

February 1, 1980

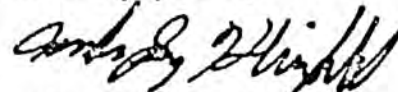
pressure on the fund to continue throwing good money after bad into unsuccessful or foolish investments which nevertheless had a large constituency of financial beneficiaries, if a government-managed permanent fund was the investor.

Seventh, this plan would mitigate the tremendous problems of fairness inevitable if the state tries to distribute some of its fabulous wealth to the people who live here. It is hard to distribute checks to Alaskans from the government as the Governor would like to do, because any American has the right to become an Alaskan. The Constitution of the United States is quite restrictive of state interference with immigration and residency requirements for public benefits. The state government now seems to be implementing an alternative "Alaska, Inc." program for state employees only, so that if one is employed by the state government, one gets a level of pay far above that in the private sector, plus a retroactive pay increase, which is to say, a large gift from the state government. This does not have much appeal to those who are not employed by the State. It is not fair.

I think that the main drawback to my proposal would be that for the first few years, the banks would have more money than they could prudently loan. The Alaska economy could not sop up the kind of money that the banks would be getting. You could handle this problem by allowing them to invest a large portion of the money during the first few years, with the percentage declining each year, in liquid non-Alaskan investments, such as treasury notes. This would preserve the money for Alaskan loans as the economy grew, avoiding dissipation of the money in loans which would not be paid back, and also avoiding tying up the money in non-liquid investments such as Outside real estate developments.

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Sincerely yours,



Andrew J. Kleinfeld

AJK :pjc

CHARLIE PARR

ALASKA LEGISLATURE

S. R. Box 50599
Fairbanks, Alaska 99701
456-5029

Pouch V
Juneau, Alaska 99811
465-3797

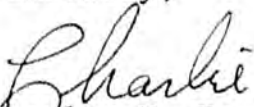
February 11, 1980

Representative Hugh Malone
Alaska State Legislature
Room 411, State Capitol
Juneau, Alaska 99811

Dear Hugh:

I am forwarding to you a copy of a letter received from Mr. Andrew J. Kleinfeld concerning Permanent Fund management. I think Mr. Kleinfeld has some very good ideas and hope that you can consider them as you work on the bill in Conference Committee.

Sincerely,


Charles H. Parr

CHP:vc
Encl.

ANDREW J. KLEINFELD
Attorney at Law
200 NORTH CUSHMAN STREET — SUITE 201
FAIRBANKS, ALASKA 99701
TELEPHONE (907) 452-1305

February 1, 1980

Representative Charles H. Parr
Alaska State Legislature
Pouch "V"
Juneau, Alaska 99811

Dear Charlie:

This is a suggestion for how to manage and invest the State's permanent fund.

I suggest that the permanent fund money be deposited entirely in Alaska banks. It should not be concentrated, but should be distributed among all of the banks, probably on the basis of a pro rata relationship to the bank's assets, so that bigger banks get larger amounts of funds and smaller banks get smaller amounts of funds, but all get proportional shares.

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February 1, 1980

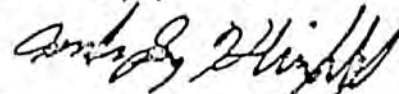
pressure on the fund to continue throwing good money after bad into unsuccessful or foolish investments which nevertheless had a large constituency of financial beneficiaries, if a government-managed permanent fund was the investor.

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Sincerely yours,



Andrew J. Kleinfeld

AJK :pjc



Alaska House of Representatives



HUGH MALONE

POUCH V
JUNEAU
99601

P. O. BOX B
KENAI
99611

March 3, 1980

Dr. Lavern Davidhizar
Box 569
Soldotna, Ak. 99669

Dear Dr. Davidhizar:

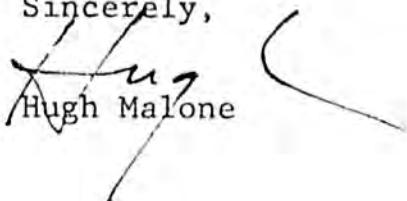
Thank you for participating in the teleconference on the permanent fund last Friday. I appreciated your comments.

Enclosed find a copy of the House permanent fund bill, a committee report from last year, and a recent press release. My staff is currently preparing an up-to-date summary of the House positions on the permanent fund, the state's loan programs, and the management of the state's wealth as a whole. I will see that you receive a copy of this when it is available.

Since the permanent fund was set up as a savings account for the future and receives only about one out of every eight oil dollars, my position is that it should be invested in the safest possible manner and maintained as a trust for all Alaskans. Other state needs, such as an expansion of loan programs and capital projects, should be paid for through the general fund, where those functions properly belong. The state currently has enough money to adequately fund existing needs and invest the permanent fund for the future.

Thanks again for taking the time to share your views with the members of the permanent fund free conference committee.

Sincerely,


Hugh Malone

HM:nl





January 31, 1980

The Honorable Hugh Malone
Alaska State House of Representatives
Pouch "V" - State Capitol
Juneau, AK 99811

Dear Hugh:

As a member of the Conference Committee addressing the management of the Permanent Fund, we would like you to know about our efforts to provide some thinking and recommendations that may be of assistance.

We share your concern that the manner in which the Permanent Fund is set up, utilized and administered will be of great importance to the future of Alaska. We would counsel, however, that the pressure to complete your deliberations may lead to hasty judgments. It would be a serious mistake to pass legislation which would foreclose vital action on other issues of paramount importance to Alaskans, such as tax relief, the strengthening of the Alaska economy and the curbing of government growth.

For example, we are concerned that specific amounts of additional monies not be committed to the Permanent Fund before an accurate assessment of the size of the surplus is available for public review.

We therefore request, prior to the adoption of final legislation, that Commonwealth North, as well as the general public, be given the opportunity to present our views at a public hearing.

Our committee studying these issues hopes to be able to make recommendations and suggestions which will be helpful to you and the other committee members as you face these important decisions. Our plan is to complete a paper by the end of February, but we stand ready to prepare testimony and recommendations earlier, perhaps as soon as the middle of the month.

*Governor William A. Egan, Co-Chairman • Governor Walter J. Hickel, Co-Chairman
Mike Hodel, President • Helen Fischer, Vice President • Morris Thompson, Vice President • William Sheffield, Vice President
Robert Hartig, Secretary • Millett Keller, Treasurer • Carl Brady, Sr. • Larry Carr • Henry Hedberg • Loren Lounsbury • Dr. Glenn Olds
Glenn Simpson • William J. Tobin
Malcolm B. Roberts, Executive Director*

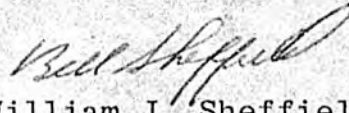
935 West Third Avenue / Anchorage, Alaska 99501 / 907-276-1414

The Honorable Hugh Malone
January 31, 1980
Page Two

Enclosed is a list of our committee members, for your information.

Sincerely,

COMMONWEALTH NORTH



William J. Sheffield, Chairman
Resource Income Committee

lh

This letter also sent to:

Lt. Governor Terry Miller
Senator George Hohman
Senator Frank Ferguson
Senator Robert Mulcahy
Representative Chat Chatterton
Representative Oral Freeman

RESOURCE INCOME COMMITTEE

William Sheffield, Chairman
Sheffield Hotels

Bob Baer
President/General Manager
Totem Realty, Inc.

Renee Murray
Scott Wetzel Services, Inc.

Bert Beneville
Merrill Lynch
Pierce Fenner & Smith

Eric Wohlforth, Attorney
Wohlforth & Flint

Mrs. Edith Bullock
Retired

Max Hodel
Alaska Sales & Service

David Chatfield
Alaska School Employees
Federal Credit Union

Harry Donahue
Alaska Pipeline Commission

David Heatwole
Anaconda Copper Company

John Mlakar
Denali Fuel Company

Ron L. Rettig
Alaska Mutual Bank

Robert Richards
Alaska Pacific Bank

William Scott
Peat Marwick Mitchell

Judge James Singleton
Superior Court, State of Alaska

Paul Wilcox
IBEW Local 1547

FEB 6

ANDREW J. KLEINFELD

Attorney at Law

200 NORTH CUSHMAN STREET — SUITE 201

FAIRBANKS, ALASKA 99701

TELEPHONE (907) 452-1305

February 1, 1980

Representative Sally Smith
Alaska State Legislature
Pouch "V"
Juneau, Alaska 99811

Dear Sally:

This is a suggestion for how to manage and invest the State's permanent fund.

I suggest that the permanent fund money be deposited entirely in Alaska banks. It should not be concentrated, but should be distributed among all of the banks, probably on the basis of a pro rata relationship to the bank's assets, so that bigger banks get larger amounts of funds and smaller banks get smaller amounts of funds, but all get proportional shares.

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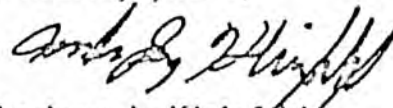
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Sincerely yours,



Andrew J. Kleinfeld

AJK :pjc

#18:26

Alaska Pacific Bancorporation

101 W. BENSON BLVD • POST OFFICE BOX 420 • ANCHORAGE, ALASKA 99510 • PHONE (907) 276-0002

DISPOSITION OF THE SURPLUS FUNDS OF THE STATE OF ALASKA

A PUBLIC SERVICE POSITION PAPER

PREPARED BY

ALASKA PACIFIC BANCORPORATION

FOR

THE HONORABLE JAY HAMMOND, GOVERNOR, STATE OF ALASKA

JANUARY 1980



Alaska Pacific Bancorporation

101 W. BENSON BLVD • POST OFFICE BOX 420 • ANCHORAGE, ALASKA 99510 • PHONE (907) 276-0002

RECEIVED
JAN 21 1980

January 18, 1980

The Honorable Jay S. Hammond
Governor of Alaska
Pouch A
Juneau, Alaska 99801

GOVERNOR'S OFFICE

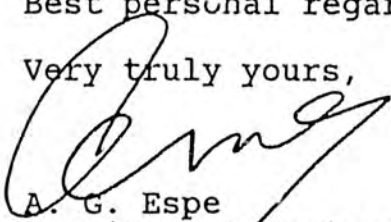
Dear Governor Hammond:

Several weeks ago at a Governor's Round Table Meeting we discussed The Permanent Fund. At that time you requested that I provide you with appropriate input. In this regard, we have prepared a paper which sets forth our thoughts on the matter.

I will be happy to provide more detail at your request.

Best personal regards.

Very truly yours,



A. G. Espe
President & Chairman of the Board

021/X

The overriding consideration in determining the proper disposition of the State of Alaska projected budget surplus is the level of government services to be provided to Alaskans in the future. It is the role of government to provide certain social and economic goods and services which the citizens deem necessary and which the private sector either cannot or will not provide.

Long-run State fiscal concerns are particularly acute in Alaska today because of the rather dramatic rise and anticipated fall in revenues associated with the Prudhoe Bay oil and gas field--a one in a one-hundred-year phenomenon. The Alaska budget issue must face the ultimate decline in production of oil and gas from Prudhoe Bay, and, thus, the ultimate decline in petroleum-related revenues.

Therefore, it is imperative that Alaska's current fiscal surplus be managed to ensure long-run sustainable growth of revenues. Expanding revenues permit improvements in both the quality and quantity of public services to overcome inflation effects and the demands of a growing population as well as to meet the rising social expectations of a maturing society.

This overriding consideration of ensuring a reasonable expansion of Alaska government services in the future leads to two conclusions regarding disposition of today's surplus funds. First, the surplus funds of the State of Alaska should not be spent for operations which expand the already immense budget and which intensify the expected future shortfall. Second, 100% of the surplus should be invested in the Permanent Fund, part of which should be managed as an endowment fund and part of which should be managed as a development bank.

Amen!

Not Using the Surplus to Expand the Operating Budget

Alaskans today enjoy a level of public services that can only be described as lavish. State expenditure increases for this decade have far surpassed increases in consumer prices, population and employment. Since 1969, State expenditures have increased at an average annual rate of 22%. Anchorage consumer prices, on the other hand, have averaged only a 6.9% annual increase since that time. Further, Alaska population has increased at an average annual rate of about 3.3%. In other words, State expenditure increases have been twice the amount required by inflation and population growth. Additionally, spending by State and local governments in Alaska is $3\frac{1}{2}$ times as much as the average state in the nation, and even when cost-of-living differentials are removed, Alaska spends $2\frac{1}{2}$ times as much as the U.S. average on a per capita basis.

In spite of Alaska's large projected revenue surplus, a future fiscal crisis seems evident if State spending continues at even one-half its historic excessive rate. The State of Alaska Department of Revenue continuously forecasts revenue and expenditures. A recent forecast made in December 1979, incorporated the annual assumptions of a 10% nominal budget growth, a 10% renewable resource revenue growth, a 7% nominal real interest growth rate calculated on the previous year's General Fund and Permanent Fund balances, a Permanent Fund contribution rate of 25% and a gas pipeline that will be delivering 2 BCF of gas per day by Fiscal Year 1985. According to these assumptions, General Fund expenditures will rise to \$7.7 billion in the year 2000 at an average annual growth rate of 10.2%, while total revenues will increase to \$8.3 billion at an average annual growth rate of only 7.5%. Clearly, if State expenditures increase at a faster

rate than revenues, a budget deficit will become inevitable. This future deficit will, in-turn, force state government to extract funds from the surplus monies of the General and Permanent Funds which would be depleted unless substantial new revenue sources are found. The rate of State spending must be decreased if Alaska wants a healthy financial future.

Permanent Fund

The second conclusion concerning the disposition of today's surplus funds is that 100% of the surplus funds should be invested in the Permanent Fund which should be divided into two parts. A portion of the total surplus should be placed in an endowment fund which focuses on the preservation of capital. Hence, just like private American colleges, the State of Alaska would have a basic fund from which to generate earnings to finance future government expenditures. The second portion of the total surplus should be managed as a development bank which would invest in projects designed to expand the industrial base of Alaska which would expand the State's tax base, and which, thereby, would expand the ability of the State to provide public goods and services.

Endowment Fund

A part of the endowment fund should be placed in risk-free and low-risk investments in order to achieve the primary objective of capital preservation. It is obvious that some of these investments should be made in time certificates of deposit with Alaska banks, for money invested here will benefit the state much more than money invested outside. It is also clear that Alaska banks can accommodate increased deposits. The ratio of loans to deposits of Alaska banks has risen from 0.53 in 1970 to 0.80 today. The fact that loans have been increasing at a faster rate than

deposits reflects the Alaska banks' effectiveness in making funds available to Alaskans. Alaska banks also can absorb more public deposits today. In 1970 the Alaska banking system had public deposits representing 35% of total deposits, whereas public deposits today add up to only 25% of total deposits.

Endowment funds excess to an appropriate absorption level for Alaska banks could be invested in low-risk government bonds. For example, a \$1 billion investment in government bonds at the current interim maturity rate of 10.5% would generate \$105,000,000 annually, or sufficient revenue required to operate the State Department of Social Services.

Interestingly, a certain portion of the endowment fund also could be used to pursue simultaneously the primary objective of the preservation of capital and the secondary objective of achieving certain social objectives. For example, the endowment fund could purchase or guarantee home mortgages at appropriate rates commensurate with current money market conditions. The purchase of home mortgages could be done through two existing vehicles: (1) Alaska Finance Housing Corporation; and (2) the Alaska banking system.

The social and economic benefits derived from investing in Alaska home mortgages are particularly attractive because of the multiplier effect. Although no "precise" figures are available on the home mortgage multiplier effect for Alaska, it appears to be close to 2 (national figures are much higher due to substantial "leakage" of funds from Alaska). In other words, a \$1 investment by the State in a home mortgage would result in a \$2 benefit to the state's economy. However, since mortgage loans are usually

repaid on an installment basis over the life of the loan, and these repayments can be reinvested by the State, the average dollar will be invested several times over during the life cycle of the loan. During this cycle, of course, the multiplier effect becomes significantly greater. The lesson, therefore, is that an investment in an Alaska mortgage is more beneficial than certain types of investments made outside the State.

The endowment fund also could purchase other loans of all types from Alaska financial institutions, thereby making more funds available to Alaska businesses and families. This would benefit both the public and private sectors with virtually no operating cost increases for state government because existing financial institutions are capable of handling and processing the loans. State of Alaska investments in loans for Fiscal Year 1979 totaled \$243 million, of which business loans comprised only 15%.

To repeat, the attractive aspect of the endowment fund concept to manage a portion of the State budget surplus is that it can be invested in a manner that simultaneously achieves the two important objectives of capital preservation and the allocation of funds to Alaska families and businesses. Further, through utilizing existing Alaska financial institutions, these objectives can be satisfied with virtually no increase in State bureaucracy or operating expenditures.

Development Bank

It is our second recommendation that the other portion of the State budget surplus should be managed as a development bank, investing in projects which expand Alaska's industrial base. Naturally these investments should be of a type that expand the State's revenue generating capacity beyond the

extent to which they also increase the demand for government services as a result of their attracting population growth and other effects. In other words, development bank investments should provide total future economic benefits that are greater than total costs.

AMEN!

Development banking is not a new idea and its benefits are evident throughout the world. Joseph A. Kane, in his book Development Banking, has pointed out that the advantages of placing public funds in a development bank are much greater than the advantages of investing in public enterprise.

"Public funds provided to a development bank have a higher velocity than the same funds invested in public enterprise. Public funds invested in the private sector through a [development] bank will yield an almost immediate return flow of amortization and interest payments to the bank. Depending on the contract between the bank and the government, these funds can be reinvested by the bank, creating another impact on industrial development as suggested above, or be returned to government for reallocation to development financing. Public funds can be revolved into and out of industrial investment relatively quickly through the development bank. Each roll-over of industrial investment funds should leave an additional productive unit creating income employment and further revenue for government. [On the other hand,] funds invested in public enterprise are likely to involve a substantially larger portion of equity, immobilizing such funds indefinitely with little or no return flow to government. Such funds have no further direct impact on industrial investment."

The Alaska development bank should invest in two types of projects: public projects and private projects. Public projects include those typically engaged in by the public sector - dams and other power projects, ports, transportation facilities, etc., which expand the infrastructure and which thereby make it easier and more feasible for the private sector to pursue its own projects. Private projects suitable for development bank participation are those of such a nature or size that public assistance is substantial -- the gas pipeline, gas liquids pipeline, petrochemical facilities, etc. We are not advocating government ownership of otherwise private projects, but government participation. The form of State investment should not be equity, but rather should be debt. That is, the State of Alaska development bank should either purchase or guarantee the bonds, capital notes, or other types of debt utilized to finance a private project, or the State should serve as a conduit for the issuance of revenue bonds which have the effect of reducing the debt service burden of private projects.

It is important to refrain from making the development bank a political tool or engulfing it in bureaucratic inefficiencies. For example, the World Bank's major problem is that because of its inherent bureaucracy, its loan process is extremely time-consuming. Through the use of existing Alaska financial institutions, however, these inefficiencies could be reduced, or even eliminated, on a State level.

What return?

Summary

In summary, the State of Alaska faces a future fiscal crisis which has three immediate policy applications for State government. First, the rate

of growth of state government operating expenditures must be reduced. Second, any short-term budget surplus must not be spent in any manner which will increase long-run operating expenditures. Third, 100% of the State surplus funds should be invested in the Permanent Fund which should be managed part as an endowment fund and part as a development bank. As far as is practical, the administration of the Permanent Fund should remain relatively independent from the political process.



January 31, 1980

The Honorable George Hohman
Alaska State Senate
Pouch "V" - State Capitol
Juneau, AK 99811

Dear George:

Thank you for taking the time to meet with us in Anchorage regarding wise utilization of the state's resource income.

We share your concern that the manner in which the Permanent Fund is set up, utilized and administered will be of great importance to the future of Alaska. We would counsel, however, that the pressure to complete your deliberations may lead to hasty judgments. It would be a serious mistake to pass legislation which would foreclose vital action on other issues of paramount importance to Alaskans, such as tax relief, the strengthening of the Alaska economy and the curbing of government growth.

For example, we are concerned that specific amounts of additional monies not be committed to the Permanent Fund before an accurate assessment of the size of the surplus is available for public review.

We therefore request, prior to the adoption of final legislation, that Commonwealth North, as well as the general public, be given the opportunity to present our views at a public hearing.

Our committee studying these issues hopes to be able to make recommendations and suggestions which will be helpful to you and the other committee members as you face these important decisions. Our plan is to complete a paper by the end of February, but we stand ready to prepare testimony and recommendations earlier, perhaps as soon as the middle of the month.

*Commonwealth North Co-Chairman • Co-Chairman • Co-Chairman
Shirley P. Smith • Harold A. Smith • Vice President • William Blumfield Vice President
John P. Smith • Milton A. Smith • Vice President • John P. Smith • Vice President • John P. Smith • Vice President
John P. Smith • Vice President • John P. Smith • Vice President • John P. Smith • Vice President
John P. Smith • Vice President • John P. Smith • Vice President • John P. Smith • Vice President*

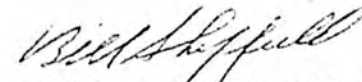
935 West Third Avenue / Anchorage, Alaska 99501 / 907-276-1414

The Honorable George Hohman
January 31, 1980
Page Two

Enclosed is a list of our committee members, for your information.

Sincerely,

COMMONWEALTH NORTH



William J. Sheffield, Chairman
Resource Income Committee

lh

This letter also sent to:

Lt. Governor Terry Miller
Senator Frank Ferguson
Senator Robert Mulcahy
Representative Hugh Malone
Representative Chat Chatterton
Representative Oral Freeman



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 14, 1980

The Honorable Hugh Malone
Alaska State House of Representatives
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Representative Malone:

Benefits from oil wealth which belong to all Alaskans can be distributed in many ways: low interest loans, tax relief, expanded government services. While these all may have merit, not all Alaskans are beneficiaries. This is why I have proposed a Permanent Fund Dividend program which, compared to drastic income tax reduction or repeal, would:

1. Provide benefits to all Alaskans from the earnings of their resource wealth.
2. Encourage greater contributions to the Permanent Fund.
3. Set in place a dividend dispersal system which most economists believe better meets the objectives of an A.C.S.O.C.
4. Not serve to narrow our already too narrow tax base.
5. Confine benefits to Alaskans.
6. Be less vulnerable to federal "tax bites".
7. Serve as less a magnet to attract persons to come up here.
8. Equitably impact both rich and poor.
9. Retain the taxpayer's one remaining tie with, and consequent concern for, government growth: How much it costs them.

10. Far less likely reduce federal revenue sharing to the State.
11. By contrast maximize favorable impact upon the State's economy by keeping a far larger portion of the money to fund the program here in Alaska.
12. Likely satisfy both the tax reduction and A.G.S.O.C. initiatives.

If it were not for these twelve considerations, I would prefer income tax reduction or repeal. It's simpler and far easier to sell politically, so long as the public can be kept unaware of what we could achieve with a comparable expenditure of their oil wealth through the Permanent Fund Dividend concept. Once they in turn become aware, various interest groups, many initially favoring instead drastic tax reduction or repeal, have similarly concluded that the Permanent Fund Dividend concept better meets the above objectives. To date, that concept has been endorsed as preferable to income tax repeal by ANS, ANB, AKPIRG, the Municipal League, the Council of Mayors, and Rural CAP.

All of the above twelve points are, in my view, important. However, some are less so than others. To aid you in your deliberations, here are the ones which I deem most important.

1. First and most important, the aggregate cost of the benefits provided must be ultimately offset by some source of sustainable revenue. The logical source is the income stream of the Permanent Fund. By relating the size of their benefit to one-half the earnings of the Permanent Fund contributions, the public will not only be supportive of larger fund contributions but as well will likely be far more demanding that at least this portion of their oil wealth be invested prudently, rather than used for hidden subsidies or bigger government.

Initially, of course, one-half the earnings of the Permanent Fund would be inadequate to fund "benefits" equal in cost to the State of either income tax repeal or the minimal \$50 per share Permanent Fund Dividend I propose. However, once three billion dollars were in the fund, one-half the income stream would be sufficient to offset the costs of income tax repeal -- about \$160 million for 1979.

February 14, 1980

Ultimately, were no "lid" placed upon the total benefit (aside from limiting it to one-half Permanent Fund earnings) each share would become worth several hundred dollars. Then the aggregate costs would far exceed that incurred through repeal of the income tax. Accordingly, I propose that the aggregate costs in any given year not exceed what the total income tax obligation was for the prior year.

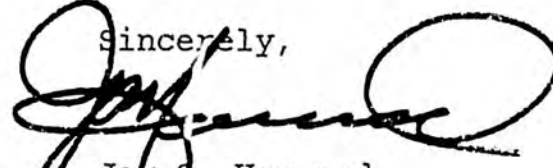
2. In any program increasing the dispersal of our oil wealth all Alaskans, not simply taxpayers, should be beneficiaries. We already have numerous programs selectively dispersing portions of our oil wealth in the form of expanded subsidized government programs and low interest loans. These go only to select Alaskans, not to all. The size of these selective "hidden dividends" can be substantial. For example, take the case of someone who gets a \$100,000 State loan of oil wealth at 9 1/2 percent interest. Yet, all other Alaskans who own just as much of that wealth as he could get about 15 1/2 percent return if their money was loaned at market rate. Therefore, the loan recipient is receiving a "dividend", or subsidy, of \$6,000 in the first year alone. That subsidy or "dividend" would amount to an incredible \$94,000 on a 30-year loan. That "dividend" or subsidy is being paid from oil wealth owned by all Alaskans. We don't confine payment of such loan "dividends" to taxpayers only or demand that before we provide Alaskans with low interest loans, we first eliminate the income tax. Why should a system which provides far more equitable benefits to all Alaskans, such as the Permanent Fund Dividend concept, be subordinate to that consideration? It seems high time that any new means of dispersing oil wealth should provide that all Alaskans, even the non-taxpaying, housewife, student, unemployed or retired couple get a share.

3. If benefits are confined to taxpayers only, as benefits grow in size with increased Permanent Fund earnings the income tax obligation would ultimately be eliminated. We would then have no continuing system for distributing benefits. This is yet another reason for setting up a system which disperses some of their oil wealth to all Alaskans -- even after income tax obligations have been eliminated.

February 14, 1980

Please use the above twelve criteria as a yardstick to measure whatever proposals may come before you. If you can better meet them through a system other than the Permanent Fund Dividend concept, I will happily support it.

Sincerely,



Jay S. Hammond
Governor