

ALASKA LEGISLATURE SPECIAL COMMITTEE / HOUSE LOCAL GOVERNMENT STUDY

412 SCOMM10: LOCAL GOVERNMENT STUDY 1979

above the state's normal tax income, and which came from the sale of Prudhoe Bay oil lands in 1969. However, of that \$900-million a minimum of \$445-million, and likely more, went straight to Alaska's local governments. The money was then respent by those communities in their 'direct service' programs.

Local government is a two-way street ... it brings benefits; but more than other governments it brings with it also some obligation of responsibility ... of local support in the form of taxes and service fees. In many functions the state and federal government provide grants for original construction of a facility, in some cases grant an ongoing subsidy for operations, and occasionally provide a free local service. But in the end local government is indeed local -- with local policy -- and with such local policy comes the implication of 'local' financial obligation.

It is the balance of financial obligations, however small, that reduces the opportunity for local government in rural Alaska, since marginal tax base, low population density, and remoteness pose questions of feasibility.

#### IV THE PAST: A SUMMARY OF THE DEVELOPMENT OF LOCAL GOVERNMENT IN ALASKA

The 'missing' structure of local government in the sparsely settled rural areas of Alaska is not a new problem. It is in fact a historic problem dating back to the early 1900s. And, many of the historical reasons that local governments could not come into existence in those early times are still valid today.

Such reasons include:

1) An inadequate tax base, 2) an unwillingness to incorporate by local impetus, 3) the general small size of the tax districts allowed, and 4) low population density, spreading population too thinly to be provided services efficiently, or to feel a common identification.

In contrast other states very early in their existence were parceled into areas called counties, creating some loose organization of area government with which the state could plan, cooperate, and participate. In Alaska this is not true ... there is the state and the larger urban oriented boroughs, then the small and often inefficiently based village government, but inbetween there are the great 'holes' where there is no local government organization. Additionally, because of the uneconomic base of many village governments, from a practical standpoint these units may hardly be judged to be local governments. The net result is that the state is left to be the inadequate substitute local government in much of rural Alaska. However, in the past Alaska as a Territory and as a young State, had neither the extra money to provide substitute local services, nor did the community have an adequate tax base with which to participate.

Oddly, the problem of sparse population and an uneconomic tax base, applied to Alaska as a whole in the early days of the Territory.

As a result, the federal government tended to by-pass the Territorial government, empowering the LARGER LOCAL communities to organize local governments, and do things such as raise taxes and sell bonds, the latter which the federal government denied the infant Territorial Government.

However, the Territorial government also seemed to recognize such larger local governments as the only really viable government in the state, and as a result passed on Territorial federal revenue to such communities in large amounts.

The early territorial/federal pattern left a weak Territorial Government, created a few strong urban local governments, and then left the weak Territory to wrestle with the multitude of problems of trying to provide some kind of substitute local government services in the small communities of Alaska, especially the native villages. The net result was that simply nothing was delivered to such small rural communities, and likewise there were few 'Territorial Services' as such. Quite simply, the Territorial period of Alaska the only viable government was simply a few larger urban governments.

History and experience in the Territorial experience provided strong government only in the form of the scattered local urban governments where there were sufficient people to make it work. The rest of the state was a fractured series of 'gaps' in such government.

The problem was recognized by members of the Alaska Constitutional Convention as they sought to deal with the question of 'local government.'

The delegates to the State Constitutional Convention of 1955 were confronted with the tradition of strong local government, it was the only government that had really worked in the Territorial period, but they were also confronted with the failures of the Territorial system in leaving the unfilled, and unserved, holes in the rural regions.

The drafters of the constitution therefore sought

some intermediate governmental entity that could be more regional in nature, providing greater services to areas of urban density, and providing lesser services such as might be feasible or demanded, to a broader rural region. The government so contemplated was to be called a BOROUGH.

The drafters of the constitution left the details of exactly what a borough was to be to the Legislature. However, a review of comments by the Delegates indicate they perceived the borough as a broad regional government that could include cities and also fill-in the blank spots of local government in rural areas. The Legislature first attempted a Voluntary Borough Act, and upon its apparent failure, went to the so-called Mandatory Borough Act.

However, the end result was still 'incomplete' local government for Alaska. Concerns over the feasibility of rural government in the end saw the formation of boroughs only in the more urbanized areas, although they include broad regional areas nearby. Rural Alaska was again left unorganized and without effective local government.

The unorganized borough has been greatly debated, but nothing of a very comprehensive nature has been done. Instead local government in rural Alaska has grown gradually depending on demands and special circumstances. As previously indicated both creation of formal local government (boroughs), and less formal structures under some unorganized borough general structure failed in part because local government can be justified only if: 1) there are adequate functions for it to perform, and 2) resources to support those functions. And, there are in Alaska vast areas where there is neither need nor justification for local government.

One other fundamental reason exists: -- fear of taxation. In the case of non-native regions there is perhaps

an ingrained social attitude of resistance to government and to 'taxation.' In the native communities the case is not so much a fear of taxation, as a resistance to what at times has been an advocacy of urban areas that rural areas be taxed simply because urban areas must pay real property taxes. In early statehood years the State Senate was regionally balanced, reducing urban vote-power. One of the less fortunate results was that urban lawmakers tended to threaten Southeast Alaska with the capital move and rural Alaska with 'taxation' of the unorganized borough.

The political tactic of threatening taxation of rural areas unfortunately tended to create rural fear of taxation, and secondly tended to eclipse what might have been more positive rural-based movement towards local government. The threatening movement stopped with reapportionment of the State Senate, which oddly granted urban areas the balance of power, thereby eliminating the 'threats' to rural areas because urban lawmakers actually recognized local government was not working in rural areas.

However, in recent years new fears of taxation have been generated due to the possibility that after 1991 a real property tax might subject their native corporation lands to taxation. Taxation ultimately holds threat of foreclosure and loss of lands. Efforts towards classifying lands for subsistence, and therefore reduced value and taxation, may eliminate this concern.

In lieu of some more comprehensive action towards local government the trend has been construction of local government in bits-and-pieces as 'need dictates' in rural areas.

In pre-Statehood days villages were governed by traditional village councils, not underwritten by formal

law, and Indian Reorganization Act Councils (IRAs) under the Bureau of Indian Affairs. IRAs in Alaska dated to the late-1930s, and reportedly evolved out of interest in native land claims.

In the early statehood years small Alaska communities were organized into first, second, and fourth class cities, but many native communities remained without local government organization except for traditional village councils. If villages were organized at all it was in the form of fourth class cities. Later the state municipal code was changed so that cities would be organized only as first or second class, with most small communities becoming second class cities.

In the early statehood period the state offered few services in the rural areas. However, the Rural Development Agency (RDA) was created to offer small grants, usually for labor, for special community projects in villages. However, the responsibility for running the project, receiving and dispensing money, rested with the village. Hence, there was a need for a public entity to run the project, and which could 'own' any property created under the grant. RDA also secured and transferred to municipalities surplus state and federal equipment. Obviously a public entity was needed to 'own' such public equipment on the village level. The state RDA program recognized and did use the traditional village councils, but the process encouraged something more formal in structure -- namely a sound local government.

Example:

A village received an \$8,000 RDA grant. Agreements were made concerning the nature of the project, and how much could be spent for labor, and how much for materials and equipment.

The village then was sent a special checkbook and a bank account established. The council was responsible for handling the checkbook, seeing that wages were paid, the project completed, and the account balanced.

The RDA grants were a unique government program in that they placed primary responsibility on the village level. The projects were small, but it was totally up to the village to see that a good job was done -- or to 'foul-up.' Many communities had problems, but mistakes were not generally bailed out by the state, and the community learned from its experience.

By placing resources at the disposal of the village, a need for functional government was encouraged in order to carry out the purpose -- the project. From the viewpoint OF TODAY the old RDA programs appear very small, but it was an important first step in growth of local government on the village level. It gave the community resources, the opportunity for a small but useful project, and the chance to run the show themselves.

One of the earliest governmental needs in Alaska communities was electricity, which is generally a 'utility' service of government which customers then pay for with a month charge. In many Alaskan villages electricity was either not available (except in the school), or was provided by a private source -- usually the local trader. Private power systems were often haphazard, subject to breakdowns, and provided to residents on a very arbitrary basis. Additionally, most communities lacked 'personal income' on the

part of residents to be able to pay for electricity on a monthly basis. The limited cash economy limited the possibility of services, private or public, which must be paid for with cash. In the pre-statehood period, only coastal native communities with access to a fishing economy, could usually afford electricity.

Private systems also posed problems in small communities in terms of how people were treated and who in the end was in a position to literally run the community, especially if no formal government was present and the community was organized only under the traditional village council.

Example:

A citizen in an Interior Alaska Village in the 1950s complained to the local private powerplant operator, the store-owner, that the electrical power was so unstable that it was ruining what few appliances people owned. The trader told the citizen he would 'take care' of the problem. When the citizen got home that night he found the wires running to his house were disconnected.

The citizen went back to the private power operator and was told: "... he had complained and his problem was solved ... he didn't have to worry about unstable power anymore, nor would his appliances be ruined -- he just wouldn't have any power." At that time there was no village power operator, or state commission to

complain to.

Today villages have the right to own their own power systems, and to complain to the state concerning operations and rates. Citizens must be provided equitable treatment, and a person may not be treated in an arbitrary manner as was our citizen of the 1950s.

Publically owned plants were difficult for a village community because the local government was undeveloped and had no money -- no capital. Hence, in some cases power plants were put together out of necessity by a few well intentioned citizens. Such systems often provided limited power on a level villagers could afford.

Example:

A villager in the early 1960s tried to get the village council to raise money for a community power plant. He was unsuccessful, so he and several others pooled their money, and secured the voluntary assistance of the electrical cooperative in a nearby large city. Together they installed several small powerplants and the power lines gathered from surplus materials of the helpful urban cooperative. The utility operated only in the morning between 7 a.m. and 9:30 a.m., and in the evening between 4 p.m. and 9 p.m.. Additionally, residents were asked not to use heavy electrical-use appliances.

The net result to the community was a limited power system that was dependable,

provided electricity when the village needed it most, and at a rate the average person could afford to pay.

However, such power systems still lacked responsibility. Being owned by private individuals they were subject to the changing lives and ambitions of those individuals. Additionally, there was no assurance such individuals, and their power system, could survive some major breakdown or disaster.

The need of villages for electrical power lead on through the 1960s to the development of a few village utilities of a public nature, usually in the form of a cooperative sponsored under the Bureau of Indian Affairs, or a federal Rural Electrification Cooperative (REA). Unalakleet was an early REA, and the Barrow Electrical Cooperative was put together under BIA sponsorship to operate both Barrow's natural gas and electrical systems.

By the late-1960s an effort beginning to materialize to bring electricity -- the number one government need -- to Alaskan native villages through REA financed cooperatives. The Rural Electrification Program provided 2% financing (at that time) for generation and distribution systems, and was the federally backed program that brought electrification to much of rural America. The systems technically were 'consumer cooperatives,' but in effect functioned as government, and in most cases were certified as utilities by local government. By the time Alaska approached their need for REA assistance, the rural areas of the state really represented the last really unique rural challenge for the Rural Electrification Administration (REA).

Under ordinary circumstances each Alaska community

might have qualified as an individual REA, as the community of Unalakleet and a few others had done a few years earlier. However, the small size of Alaskan communities posed special economic problems, and as a result Alaskan rural villages in the electrification effort became packaged into one cooperative called the Alaska Village Electrification Cooperative (AVEC).

The concept was to package villages into one program, allowing special technical assistance, special maintenance, training, installation of common equipment (reducing maintenance problems), and permitting packaging of financing and overall financial management under one agent. The system then was to allow a certain amount of autonomy for the individual village system. The concept was probably a necessary and reasonably good one, but also faced all the problems of administering and maintaining the program over a vast and isolated region. Additionally, like many Alaska projects before AVEC, and since then, the program was undercapitalized, perhaps implemented too quickly, and suffered from lack of technology and materials adapted to arctic conditions.

AVEC was a consumer cooperative, but required recognition by local municipal governments. The net result was the necessity of organizing the villages to receive electrification into (at that time) fourth class cities under Alaska statutes. Fourth class cities had the power to offer limited municipal services, but had only the power to implement a sales tax for general tax revenue.

Hence, AVEC itself provided what was a basic government utility service in a form -- as a consumer cooperative -- which resembled and operated like government but was over. However, AVEC required the creation of a large number of

municipal governments, bringing formal Alaska statutory local government to much of rural Alaska, and additionally tended to interject Alaska State Government into a responsibility for native village local government affairs.

AVEC soon encountered many problems due to small economy of scale, poor construction, maintenance, management, and soaring electrical rates. The tendency to resolve economic problems generally was to get the village school, through the legislature and state government, to pay rates far in excess of ordinary. In essence, the school became a vehicle for the state to subsidize the village AVEC system.

The method of school subsidy was not critical until the creation of the Rural Education Attendance Areas (REAA's). The REAA system divided rural Alaska up into 21-rural school districts with locally elected boards, and their own school budget allocated on a state school formula related to the numbers of students and regional cost-of-living. The REAA's were a unique step in local government all of their own, but suddenly the extreme rate of AVEC subsidy in the school budget became a sore point with the local REAA boards. They saw the high rates limiting the money they had available to deliver local education. It is of interest that two emerging forms of piece-by-piece local government should come to a collision on such a basic rural local government issue as electrical rates.

The conflicts between the school REAA's and the AVEC systems are far from resolved. However, the conflict demonstrates the coming of age and the growing complexity of rural local government in Alaska. The local government void in rural Alaska is being filled on a piece-by-piece basis.

Prior to 1970 the state school system was simply

run by the Department of Education under the authority of the State Board of Education and the budget authorizations of the Legislature. There prevailed a feeling among rural lawmakers and rural education interests that the interests of rural schools were subverted beneath an urban bias of the board. Hence, a movement began towards a separate rural school board to run schools in the unorganized areas of the state.

The result finally was the creation of the State Operated School System under a separate board which came to be called the SOS Board (State Operated School Board). The regular state school board was left intact with the responsibility of looking after general educational affairs in the Department of Education, and whatever role they had in relation to the rather independent urban school systems. The rural school board was appointed by the governor, represented rural interests, were subject to confirmation by the legislature, and had the power to hire and fire their own 'director' of the state system, who was completely independent of the Commissioner of Education. The system was designed to provide a greater rural say in educational matters, and as something of a statewide education local government in the unorganized borough.

However, the SOS system didn't cure rural school problems. In the final analysis it appeared that the problems of managing rural schools were rooted inherently in the difficult task of trying to administer scattered rural schools over great distances. No sooner was SOS formed than movement began towards decentralization into local districts in order to: 1) allow a local policy voice, and 2) place the management of schools on a local enough level to allow a more sensitive management.

In 1975 the state eliminated the SOS system and board, and divided the state into 21-rural school districts called Rural Education Attendance Areas (REAA's). Each REAA had its own locally elected board and its own school funding formula with money provided by the state. The REAA board was permitted to hire-and-fire teachers and make almost exactly like any urban school district.

Since anywhere in the United States the function of 'schools' is the chief local service, the creation of the REAA's was a giant step towards creation of general local government in rural Alaska. Additionally, with the creation of the REAA, for the first time, ALL ALASKA was covered by some form of local government.

As in the case of AVEC which created a need for fourth class cities, the REAA's could come into existence because the state provided the resource -- the dollars -- needed to carry out the function, while the local communities created the expressed need for localized school policy. The source of REAA funding was 'limited' but STABLE.

In the end stable local government depends on a stable resource, which usually means money, and secondly depends on a stable need for some service by the user. The stability of the resource and the demand have a great deal to do with the stability of the service offered. In urban areas the stability of resource and demand relates to local taxes and local user fees. Often a resistance against paying higher taxes and fees in urban areas makes a service unstable in those areas. In the rural areas there is little tax or service fee base, and therefore, for example with the REAAs, money is likely to come from the state, federal government, or from grants, and such sources may also be unstable.

Grants are especially unstable sources of funding. They offer a potential resource to a community and should be reviewed as an opportunity. However, caution should be exercised because grants are often obtained predominantly because THEY ARE AVAILABLE, and not because they are a stable source as a monetary resource, or because there is a clear demand or need. Grants can be disruptive to a small community, and simply viewed with awareness of their negative potentials. In the end grants fall somewhat short because they do not usually meet the local government 'test' of a clearly defined resource for support and a clearly defined need based in the community.

The REAAs are a unique experiment in local government. They avoid the issue of local taxation and provide a service with state dollars, but are set up in a formula that tends to encourage sound local decision making on priorities. Essentially under the system the number of state dollars are limited, and therefore must be allocated to the highest need by local decision makers.

The REAAs will have difficult problems in their early years for all the usual reasons. They are new, generally small, they, too, must work with problems of sparse population, distance, and poor communications between communities. However, they seek to strike a balance between the need for a certain level of efficiency of size, and a desire for as much local control as possible. But the real uniqueness of the REAA is that it is an effort that recognized the limited local tax base, therefore sought not to frighten-off the potential of local government with tax proposals, and maturely provided for state money as the supporting resource.

In the end, of course, development of local government of any real sophistication requires the obligation of local supporting taxes and fees. However, the REAAs are allowing the growth of experience, and hopefully in the end development of a stronger cash-income on the village level will allow development of a tax base.

#### V THE PRESENT: GOVERNMENT AND RURAL ALASKA

As previously indicated AVEC brought incorporation of villages into cities under Alaska law. The cities were to provide some local authority to own and manage property, and to provide local services as needed. Such local services could range from very simple requirements such as owning and lending a piece of equipment, to sophisticated services such as utilities, fire, police, airfield management, and etc.. However, such municipalities generally have a limited taxing ability.

The State presently has eleven borough governments:

- Anchorage
- Bristol Bay
- Fairbanks
- Haines (3rd class)
- Juneau

- Kenai
- Ketchikan
- Kodiak Island
- Matanuska-Susitna
- Sitka
- North Slope Borough

The state has 20 'first class' cities. The difference between a first and second class city is basically in their ability to tax, and in the fact that a first class city must provide for schools. A first class city can impose a sales tax and a property tax, while a second class city may only impose a sales tax. The following are first class cities:

|              |              |
|--------------|--------------|
| --Cordova    | --Nenana     |
| --Craig      | --Nome       |
| --Dillingham | --Pelican    |
| --Eagle      | --Petersburg |
| --Galena     | --St. Marys  |
| --Hoonah     | --Skagway    |
| --Hydaburg   | --Unalaska   |
| --Kake       | --Valdez     |
| --King Cove  | --Wrangell   |
| --Klawock    | --Yakutat    |

It is of interest to note that many of the native communities listed above are in the coastal area, where they have some industrial property value (usually fish processing, etc.) to tax in addition to homes, and where there is also some cash economy. Exceptions perhaps are St. Marys, Galena, and Eagle.

The state also has ninety-two (92) second class cities, which have only the power of a sales tax, and which DO NOT have responsibility for schools. It is in this category that most of Alaska's native villages fall. Many communities also remain 'unorganized' with only their traditional village councils. A few others are organized only under the Indian Reorganization Act (IRA). The second class cities are:

|            |                |           |
|------------|----------------|-----------|
| --Akiachak | --Goodnews Bay | --Noorvik |
|------------|----------------|-----------|

|                  |                    |                   |
|------------------|--------------------|-------------------|
| --Akiak          | --Grayling         | --Nulato          |
| --Akoimuit       | --Holy Cross       | --Pilot Station   |
| --Alakanuk       | --Hooper Bay       | --Platinum        |
| --Aleknagik      | --Hughes           | --Port Alexander  |
| --Allakaket      | --Huslia           | --Port Heiden     |
| --Ambler         | --Kaltag           | --Quinhagak       |
| --Anderson       | --Kasaan           | --Ruby            |
| --Angoon         | --Kiana            | --Russian Mission |
| --Aniak          | --Kivalina         | --Saint Michael   |
| --Anvik          | --Kobuk            | --Saint Paul      |
| --Atmautluak     | --Kotlik           | --Sand Point      |
| --Bethel         | --Kotzebue         | --Savoonga        |
| --Brevig Mission | --Koyukuk          | --Scammon Bay     |
| --Buckland       | --Kupreanof        | --Shageluk        |
| --Chefornak      | --Kwethluk         | --Shaktookik      |
| --Chevak         | --Lower Kalskag    | --Sheldon Point   |
| --Chuathbaluk    | --Manokotak        | --Shishmaref      |
| --Clarks Point   | --McGrath          | --Shungnak        |
| --Deering        | --Mekoryuk         | --Stebbins        |
| --Delta Junction | --Mountain Village | --Tanana          |
| --Diomede        | --Napakiak         | --Teller          |
| --Eek            | --Napaskiak        | --Tenakee Springs |
| --Ekwok          | --Newhalen         | --Togiak          |
| --Elim           | --New Stuyahok     | --Toksook Bay     |
| --Emmonak        | --Newtok           | --Tuluksak        |
| --Fort Yukon     | --Nightmute        | --Tununak         |
| --Fortuna Lodge  | --Nikolai          | --Unalakleet      |
| --Gambell        | --Nondalton        | --Upper Kalskag   |
| --Golovin        | --White Mountain   | --Wales           |
| --Selewik        | --Koyuk            | --Whittier        |

Of the above second class cities twenty-three (23) last year did not even file their annual reports to the state, while another 26 are not even levying a tax of any kind. Hence, only forty-three (43) are organized enough to levy a one percent to three percent sales tax.

The record does not speak very well for the state of organization of local government on the village level. While a sales tax does not yield much in a small community, nevertheless, the lack of any tax clearly means the community has little monetary resources.

Today State government is a stronger and better

substitute to serve rural needs, and the where-with-all of surplus state revenue is also available for special assistance.

However, again the caution, on the bottom line in the smaller villages, and depending on local conditions in a community, there still may be no solution for providing local government services. The question is can they (the community), regardless of subsidy, afford to support and maintain their part of any local government system? The bottom line is: CAN THEY AFFORD IT?

In order to put things in a more balanced perspective, it should also be recognized that rural areas of urban communities also do not share in many local government services.

Example:

Fairbanks is a borough of 60,000 people. The City of Fairbanks is one of several cities in the borough. About 25,000 people live inside the cities, about 35,000 outside the city limits in the general borough area. People in the cities receive a large number of services --fire protection, police, street maintenance, electricity, sewer, water, garbage pickup, dog control, public library-- and they pay a fairly high tax rate (maybe \$700 a year).

People living in the borough outside the city often live in a rural setting where they DO NOT, OR CANNOT, receive many such services of local government. As a result they will pay maybe \$350 a year. However, in many cases those urban rural residents have THE OPTION OF DEVELOPING A SERVICE

AREA AND ACQUIRING WHATEVER SERVICES FROM THE BOROUGH GOVERNMENT. There is a certain element of choice available. The persons may choose to live in the nearby city where services are available, or may choose to advocate forming a service area to bring services.

However, in many cases in the urban-rural area, like in the villages, it is simply not possible to deliver a service. The houses may be too far apart to ever deliver water or sewer service. In the urban case many people have elected not to have full local government services because THEY CAN'T AFFORD THEM --they would be too inefficient and too costly to deliver.

In villages the economic problems of a local government utility, such as water is 'too few' total customers, but in the urban-rural zone the problem is often technical unfeasibility due to customers being too scattered in their residence pattern.

Hence, village residents are not necessarily discriminated against. Both village-rural and urban-rural residents have problems 'affording' the economics of a service system of local government, or in meeting technical requirements of a feasible system. However, the more urbanized areas do have the benefit of an available regional government in the form of the borough, which can act as a conduit for state services and for such services as a group of residents may from time-to-time opt to. Rural residents have only their first or second class city, often too small and lacking economic foundation, and have no other available 'area' or 'regional' unit of some greater sophistication between the village and the state.

As a result government is often too small and too local to provide services, assistance, and planning, or is too remote in the form of the state as a substitute.

VI. THE PRESENT: GOVERNMENT AND THE PRIVATE ECONOMIC SYSTEM

In most western democratic nations and states, including Alaska, our system of organizing society's activities generally divides into two identifiable systems --the government and the private economic system.

Both sectors are subject to constant change, depending on the needs and the crises of the times. The line between the private and the public often becomes narrow and undefinable. Government at times controls, and operates, what would appear to be private business functions, and conversely, on occasion the private sector delivers what would appear to be government functions.

However, we might best describe the private sector's interests as those functions providing a reasonable expectation of profits. If profits are less than normal, the private sector is likely to offer its services for sale elsewhere. Government on the other hand does not earn profits, but offers services supported by general taxes or specific fees, which may or may not, have a direct relation to the quantity or quality of the service delivered. Government tends to act under a utility concept, where everyone pays something (taxes), but the more economic parts of the system tend to support the extension of the system into the less economic areas of service. The system is not simply a take from the rich and give to the poor concept, but allows a total benefit for all by allowing systems to be reasonably complete and uniform.

Government in the past quarter century has been subject to great change. The quantity of existing services, and the number of new services of government has increased

tremendously. During the same period the private sector has been subject to the changes of a rapidly expanding economy and technology. During these years the line between government and the private has become less clear.

A number of unique conditions affect the relationship between the government and private structure in Alaska. Two of these factors are: 1) the state has an excess of money from oil income, and 2) a unique corporate organization has been created in the form of the native land claims corporations.

However, the existence of the land claims corporations as a unique economic vehicle, and the condition of state excess wealth, relate to two other conditions. One, the state has a tremendous area of native population which stands outside the current economic mainstream, and two, there exists a sophisticated and developed urban-based economic infrastructure from which to extend and build economic efforts into the economic void of the rural areas.

The development of oil resources in Alaska has given the state the ability to expand traditional services, and also to consider the problem of what should be done with excess state revenue which is not needed at the present time. Petroleum revenue has allowed the state to provide state revenue sharing with cities and boroughs, has allowed the increased construction of airports and harbors, and for rural areas will provide the monies to construct and operate currently proposed village level high schools.

However, it is important in dealing with state government issues to understand that the existence of such surplus revenue is unique. It is a rare gift of nature, and perhaps an accident of discovery that the state fell heir to such wealth

in this historical timeframe.

Prior to 1969 Alaska was like most other states -- 'poor'. Despite good ideas, and critical needs, the state had little extra money each year to fund anything beyond already existing services.

In the early 1960s a slough of the Yukon at Fort Yukon was washing away homes and endangering the community school. The U.S. Corps of Engineers rejected damming the head of the slough as impossible and too costly. Additionally, federal funding would likely take too long. The state funded the project at \$200,000 and with some good luck was successful in diverting the river.

In the mid- 1960s a \$200,000 appropriation for such a special project was almost unheard of, regardless of need.

Today, less than 10-years later, the appropriation of special funds by the state for such urgent community needs is regular practice. Today the availability of money does not depend on the lack of funds regardless of the need, but rather on the proponents of the need getting together their information and taking their case to governor and legislature.

The availability of oil resources has made possible such urgent community projects, and also the increased development of such rural needs as schools, airfields, roads, and harbors. However, the availability of excess revenues also opens up the question of the state using its money in areas beyond traditional services --Such as for loans. Generally state and local governments are not in the loan business, either to the citizen or in the form of business development loans, simply because they don't have enough funds for the traditional services. The traditional services came first, and so in the 1960s in Alaska there was little money for loans,

except perhaps a few dollars for veterans and farm loans.

The \$900-million received from the sale of Prudhoe Bay oil lands in 1969 plunged the state into the realm of excess-revenue, and into a wide variety of new loans programs. Prior to 1969 the scope of state loans was roughly veterans and agricultural loans. In the post-1969 period the state increased its portfolio to veterans home and business loans, fishing vessel and gear loans, general small business loans, tourism loans, education loans, fisheries enhancement loans, and the bank incentive loan program. In addition the state created the Alaska Housing Finance Corporation, and put up needed reserves to bank-roll several hundred million in low and moderate income housing loans.

In 1972 the state's total outstanding loan portfolio was a modest \$18.9-million, but by 1977 that portfolio was \$202-million, and showing signs of growing at more than \$50-million a year with no 'new programs.' It is important to note that during the mid-1970s the loan programs also began to tilt away from simple 'citizens' loans, and become available to corporate entities in the form of tourism loans, fisheries enhancement loans, agricultural loans, small business loans, and the Bank Incentive Loan Program.

Such loan programs at this point do not provide viable tools for direct partnership with the native claims corporations, but excess wealth has allowed a progression TOWARD USEFULNESS BY SUCH CORPORATIONS. The permanent fund legislation now being debated may take the final step towards specifically creating the 'programs' that will allow a partnership between excess state wealth and the private corporation.

The second unique ingredient in the changing Alaska public/private relationship is the creation of somewhat unique

corporations in the form of the land claims corporations.

On one hand, the state having excess revenue is getting pushed into using that wealth in a 'business fashion' --to resolve the economic problems of its citizens. The state is being pushed into the business arena.

On the other hand, the native corporations are unlike conventional business corporations. They have a stockholder base concerned with basic economic and social interests. The stockholders are community motivated, and are likely to temper their profit-interests in a manner unlike conventional stockholders. The native corporations, especially the smaller ones, because of their social base are likely to be pushed into acting more like some kind of government.

Both the state and the native corporation face special potentials and dangers in their tendency to drift towards a mixed business/government centerground. These dangers will be discussed later.

In comparison to the native corporations, regular private business has little regional or social loyalty. The corporation is loyal to top management, and top management to the stockholders scattered from Maine to Oregon. The company may be a very important local business in Alaska, but top management may be in Seattle or New York.

The conventional corporation owes its stockholders profits, dividends, and long range protection of their investment. The native corporation owes the same thing, but under local investment circumstances the stockholder may be willing to temper somewhat interest in profits and dividends in favor of local services and/or local employment benefits. However,

the corporation must beware the ultimate sacrifice of long range protection of investment (capital).

In many respects the native corporation may prove to be both the conventional and social tempered corporation, or a mixture. For example:

A village invests in a business in Seattle or even Anchorage. If the business requires high skill, offering little native employment opportunity, then the investing corporation is taking the form of the conventional corporation. It is seeking the highest possible return and safe long range investments for stockholders.

A village investment in a hotel in the village may offer local employment, opportunities for other craft and tourist business, and therefore draw village investment with associated benefits to the community replacing high profits. However, such a business will still have to make some profit to insure its continued existence. In this case the corporation is acting as the socially tempered corporation.

A mixture of the two might be represented by an investment in Anchorage, which can supply jobs to village residents living there,

or moving back and forth to Anchorage. Additionally, joint partnerships in construction projects can provide jobs for village residents on a rotating basis. In this case the corporation is mixing hoped for high returns with meeting some social needs.

Of course, the investments of a corporation as outlined above do not stand alone from each other. In the end they must combine their profits and losses into the total profits-and-losses of the parent Village Corporation. Hence, the investment philosophies can become even more mixed, with some high return investments supporting the less profitable home-area investments. Additionally, a profitable investment may make it possible to support a home-area investment that will ultimately be profitable, but which requires a longer development period until profits begin.

Before we discuss the relationship of the unique conditions of STATE EXCESS WEALTH and THE MORE SOCIALLY ORIENTED NATIVE CORPORATIONS, we should touch on two other related conditions. One is the lack of any economy in broad areas of the state, but second, is the advantage of the close proximity of a relatively well educated and sophisticated economic structure that can provide a 'jumping off' point.

Alaska is a region of economic contrasts. Presently there appears to be the sophisticated urban economy, and then in the broad northern and western areas of the state 'no economy.' The native rural areas of the state represent an economic region much like many of the so-called third world nations. The problem in these areas is NOT a depressed economy, but a complete lack of economic structure.

Hence, the difficulty in dealing with the problem is to find someplace to even start.

A depressed economy usually still provides the basic structure of an economy which can be regenerated, or partially regenerated, while other new sources of economy are brought into existence. In earlier times much of rural Alaska had a thriving economy, and uniquely, an economy that was sufficiently half-way between native life-style, and the life-style of the new migrants, to be comfortable for both.

In early period of the century economic life was not always comfortable for white or native, but there usually was a means of making an income any time of the year. In the summer rural people often went to the mines to work, or in transportation on the rivers, there was fish to be caught for winter. In the fall, or almost any time of the year there was wood to be cut for someone, in the winter there was fur, and other teamster work in hauling supplies over the frozen ground. And, in the spring a 22-rifle and a rat canoe could bring enough money to leave behind with a family, and travel to the mines to work.

In the late 1930s the use of oil was rapidly eliminating the woodyard (and employment thereby), the airplane was making encroachments on the previous labor intensive transportation industry, the fixed price of gold each year saw mining development close down, and the fall in popularity of fur and the rise of domestic fur farming and synthetic fur was gradually eliminating the rural trapping industry.

The activity of the war overshadowed the growing rapid collapse of the natural rural industries. After the war the activity ceased, and Alaskans found rural Alaska in the final stage of total depression. In the 1950s the rural depression became almost total and with the passage of time became not just depression but simple lack of any economy. There was little wood to cut for pay, the airplane eliminated transportation jobs, the mines were all but closed, and fur was at rock bottom. Hence, the rural communities relied on subsistence, and the 1960s brought welfare. Few people realized the total shift of economic circumstances that had befallen Alaska's most permanent population.

Rural Alaska is just now emerging from thirty years of total lack of economy. Hence, economic planners face the problem of trying to find where to re-kindle a fire that has completely gone out. Government can solve some problems in rural Alaska, and with money can quite easily increase traditional services. However, government has a poor record on the economic side of the fence -- in producing an economy and in producing employment. Alaska State Government now has surplus revenue it can supply to the increase of not only traditional services, but to tackling the economic problems of rural Alaska.

However, despite the tool of available dollars, and good intentions, the state still has the very difficult problem of finding how and where to begin. Oddly, the village and regional corporations have the same problem. They are almost forced into investing in the existing economy of the urban areas, protecting their capital, until 'they too,' with their tool of wealth, can find where to

begin in the economic void back-home on the regional and village level. The state and village corporations are not only partners in their dilemma, but have common goals and common tools in the form of potential capital.

In dealing with the problem of excess wealth, and applying it to the problems of a large regional lack of economic structure, Alaska does have the advantage of having a thriving sophisticated urban core, and of being integrated into one of the world's most dynamic national economies.

The well-off urban core of the state may at times be both unthinking and unfeeling of the state's rural problems. The rural urban economic contrast may at times also be embarrassing. However, the state does have an advantage of having a thriving economic core onto which to build some sort of rural economy. The state also has the resources to apply to education and literacy gaps.

In contrast most small undeveloped nations of the world, struggling with similar large areas of total 'lack-of-economy,' are not quite so fortunate. Even their economically developed zones are poor, and are simply struggling to function with the rest of the world, while at the same time they face the problem of initiating an economy in areas totally out of touch with their own struggling economic centers. These nations face the problem of few government resources to deliver traditional services of health, education, and transport, making economic breakthroughs almost totally out of the realm of the possible.

Such undeveloped nations DO NOT have governments with MORE THAN sufficient capital, they DO NOT have localized groups with capital of their own, they DO NOT have populations in the undeveloped zones that are already well along the road to reasonably high educational services and levels of literacy. The only thing such nations have in common with rural Alaska is the economic void, and perhaps the cultural disparity between the rural population and the so-called modern economy. However, one critical burden Alaska must bear in ANY development is that of being in one of the world's highest cost sectors.

VII THE FUTURE: THE RELATIONSHIP OF THE VILLAGE CORPORATION TO THE DEVELOPMENT OF GOVERNMENT IN RURAL ALASKA

Today local government needs in rural Alaska are again in serious consideration. Two ingredients seen to encourage a more sophisticated local government. One, is that even though many rural communities represent an uneconomic density of population for local government, that 'surplus state oil revenues,' have provided a source of assistance to marginal populations. Second, certain local investments of native claims corporations may depend on a local government structure which can provide utilities.

Example:

A village corporation determines there is a need for a hotel facility in the community. Such an investment appears marginal, but compensates by creating a few jobs on the local level. Feasibility indicates that the structure of the hotel would cost \$310,000.

However, the community has no water or sewer system. Hence, the additional cost of such utilities to the project may add another \$100,000, or more, depending on area climatic conditions. If a local government is supplying sewer and water needs to a village, then the hotel would be 'spared' financing that initial financing cost. The project would then simply hook into the system and begin paying its regular monthly utility bills like anyone else.

However, while village and regional corporations will find their potential for economic investment marginal on the village level, it should be remembered that local government

will also be extremely marginal in terms of feasibility. The only difference will be that local government can command grants to lower construction debt costs of a local government project, and due to state surplus money can command some measure of annual 'operational' assistance. Such special assistance allows smaller communities to be marginally feasible, but at the bottom again there still is a size community that will find local government 'uneconomic.'

In other words, many communities in rural Alaska perhaps should not attempt local government for many of those reasons that prevented local government organization in rural Alaska from 1900 to 1950.

The lack of local government in the rural areas creates another special problem for village corporations. First, it creates a demand on the village corporation to perform as a substitute government, since the corporation has some monetary resources and the village municipality does not.

Second, since the stockholders of the village, and the citizens of the village are the same people, they are apt not to have a clear picture of the difference between the second class city and the village corporation, and the proper function of each. Where there is no municipality at all, then the village corporation is apt to automatically become something of a government.

Thirdly, the village corporation leaders in their difficulty in dealing with proper goals for the village corporation, may become tempted to perform more as a government. For example, a corporate leader might show some success in traveling to Juneau in an attempt to get airfield repairs underway. The action is something of a governmental action pushed upon the corporate leader. Since government goals may be 'more identifiable' to the community, a corporate leadership could be diverted from

their proper corporate goals.

Fourth, in many cases village corporation officers are also members on the city council, an education advisory board, and even an IRA, all at the same time. The result can be genuine confusion in roles and in responsibilities.

The State Community and Regional Affairs Department already receives government reports often signed by a corporate president, and the Department of Commerce year-end annual corporate reports signed by a city council president. The book-keeper for the corporation and city may be the same, but the methods of keeping corporate and city books are entirely different. For example, the social security payments for a municipal employee and a private employee (of the corporation) actually are sent to different places.

Fifth, due to the difficulty of a small village corporation showing investment success, it may become very tempting for corporate leaders to slip over into the governmental arena, and use 'governmental' activity and success as substitutes. This does not mean that the village corporation does not have a role in helping pursue community governmental goals. The regular private corporation does NOT HAVE SUCH A DUTY, but clearly it would be dishonest to suggest that the village corporation does not have a local social responsibility. Clearly, it does since its base of stockholders are in a social and community base, but in recognizing this fact, it should be warning to corporate leaders that the community (governmental) duty should not supercede its duty to stockholder investments and profits. THE CONFUSION OF ROLES ON THE LOCAL LEVEL IS A VERY REAL, AND A VERY SERIOUS, PROBLEM FOR THE VILLAGE CORPORATIONS.

Village communities are small. Some presently have no organization except the village corporation and perhaps an informal traditional village council. However, others are

caught with a confusion of being a village corporation, IRA community, an Alaskan second class city, and may even have in existence a traditional 'village council.'

The present circumstances would appear to indicate that most Alaska second class cities on the village level are barely able to organize and function. On the other hand, there are no area governments to aid in regional planning and to coordinate services that may require a larger base than the village.

The REAA has begun to fill in the middle. It is at least a regional government dealing with schools. Additionally, Coastal Zone Management and Land Use Planning have begun to push at the issue of some kind of regional planning. Such regionalization and planning stands very close to being a form of local government.

Obviously, rural Alaska needs some form of regional local government to fill in the gap between THE STATE and the often too-small SECOND CLASS CITIES of the villages. The future form of such 'area' local government can bring benefits and also problems.

A rural regional local government can become just one more organization with which the village must contend. Previously, we described the complexity, and possible confusion, of the traditional village council, city council, corporate board, IRA council, a likely school advisory board, plus we can add the REAA (area school board), the relationship to the Native Regional Corporation, and regional non-profit corporations. Obviously, the suggestion of adding on top an area local government, despite problems due to its lack, must be viewed with some caution and care.

In view of adding to possible confusion of organiza-

tions, one suggestion has been to simply allow REAA (Rural Education Attendance Area) to take on minor local government functions. The REAA might receive an annual grant of funds from the state to carry out certain coordination and planning functions within their area. In addition, the REAA might become a conduit to deliver some specified state service under a degree of policy direction by the local board. The most difficult part of using the phase-in concept described above is to develop some criteria, which at a certain point, would require the REAA to cast-off its add-on local government functions to some more formalized non-school local government.

The problems of local government in rural Alaska is not easy. However, in the end local government must depend on a supporting resource, usually money, and a legitimate demand for a needed service by the people. Nevertheless, the village corporation may well find it to their benefit to encourage the development of local government, and its tools.

#### VIII THE FUTURE: VILLAGE CORPORATION AND STATE GOVERNMENT COOPERATION IN THE DEVELOPMENT OF A RURAL ECONOMY

The initiation of an economy where there is none is in the best of circumstances difficult and discouraging. Therefore, it may be useful to give thought to the good fortunate of Alaska to have a number of sources of ready capital. The problem is the cautious and proper use of the capital -- the tools of development.

STATE CAPITAL to underwrite more than the usual in the way of traditional services such as schools, water, sewage, electrification, social services and etc..

STATE CAPITAL to underwrite special capital pro-

jects, construction and facilities, that may be of advantage to the development of private economy.

STATE CAPITAL to guarantee, or directly participate in through loans and debt, economic development projects within the sector, in conjunction with native corporations, or non-native corporations.

NATIVE CORPORATE CAPITAL to participate in projects either on its own, in conjunction with private capital, with state capital, or in combined investment with both or other private and state capital.

Additionally, such capital may be aimed at rural-located investment, or may be aimed at investment 'anywhere' in the state conditioned on the potential transport of rural labor to-and-from the jobsites. The latter potential of cyclical transport of rural residents to-and-from jobs has merit in developing a skilled seasonal workforce, and reinforcing rural family livelihood while buying time for perhaps a more careful investment of state and village corporate capital on the home level.

The traditional services of government generally have little to do with the 'economic base' of a community, with a few notable exceptions. Generally, such services simply benefit the daily well-being of the individual citizen and family (education, health, police, etc.). The exceptions may be certain physical facilities which tend to aid commerce, such as a good airfield, or perhaps a road to some particular site. Such facilities will not create an economic base if there is none, but may enhance an economic opportunity if one develops.

Example I:

A village corporation invests with another private operator to develop a fish processing facility. The site is five miles from town on a separate bay where water is available. If the facility locates in town it must develop a very expensive water operation, if it locates at the remote site it has a natural water supply. Additionally, the village corporation owns the land at the more remote site. However, if the enterprise must finance the road to the site it could add \$100,000 in financing cost for a low-quality road, and neutralize any savings from the water availability.

The question facing the corporation is whether the savings due to the village corporation owning the land, plus the availability of water, exceed the cost of the road?

Are there other alternatives?

OPTION ONE: The Village Corporation could prevail upon the municipal government of the village to develop a water system to serve both the town and the fish processing plant located in-town. Eventually, the business would pay 'its share' of the town water facility through utility rates. However, the processing plant would save the initial cost of having to finance its own water system. The Village municipal government could seek aid from the state, and the federal government in paying the cost of constructing the water utility, but once constructed the utility would have to break even

in paying remaining debt and operational costs.

OPTION TWO: The representative of the Village Corporation and the village municipality may approach the State to build the road five miles to the more remote site. The state would likely be able to build a higher quality road designed to last longer. The project could be an organized and planned project within several programs of the Department of Transportation, or could take the form of a request for a special appropriation by the Legislature (especially if time is short).

If the road to the site could be justified as in the public interest, then the road could be built without either an initial construction cost, or a user-fee to the plant. The project would come under the heading of a general state service, paid for by all state taxpayers, just as the village taxpayers pay their small share of supporting state highways in Fairbanks or Anchorage.

Option one above represents a government 'utility' service, where the state and federal government may aid in initial construction, but burden of operation falls on the local community. Option two represents a general state service where the burden is carried by all state taxpayers without charge.

Example II:

A village corporation and a partner mining company are jointly seeking to develop a small mine about 10 miles from the community. The mine will be a small operation, but subject to the fluctuation of mineral prices, so it may

not operate every summer, or may operate at a smaller stand-by level.

The corporation has the problem of getting the ore to the Village, providing stockpiling and packaging, and then flying the ore out. However, the airfield is inadequate for larger planes. The development will be in planning for about four years. The corporation is seeking ways of saving money and enhancing its overall economic feasibility.

What are the alternatives in the mining project in which the state might provide related assistance?

OPTION I: The state might construct the 10 miles of road from the mine to the village. However, such a distance could carry a high price tag, involving much heavier road construction for the benefit of mining trucks, and construction of several costly bridges. The higher cost will create much tougher state questions when help is requested.

OPTION II: The State can through special Legislative appropriation participate in improving some 'public' facilities at the airfield. For example, the state might install a level airfield parking apron which could facilitate freight handling and storage.

Under certain circumstances a storage building might even be built for the airfield, with portions designated as a public terminal, and portions leased to any private individual

wishing to lease. Obviously, the mining company is the only available renter, and while it would have to pay equitable rents the company would be able to escape the front-end cost to build their own building.

OPTION III: The corporation and the municipality could approach the state for improvements in the airfield to accomodate larger aircraft. However, the project is a sizable venture, and may have to wait its turn in the priority list of such projects.

The three options listed above are all projects that the state has some justification in doing as a general state service. Any one or ALL of the projects could be undertaken. However, all taken together the projects may represent a total cost that might bring serious opposition from the state administration and Legislature, since those high costs may tend to threaten, or bump the priority, of other projects. Therefore the planners of a project, hoping for state assistance, should be very careful in terms of how, when and with what proposals they approach the State Government.

In considering the previous options and their benefits and potential of achievement, the project planners must carefully consider such questions as:

Which of several of the options for state assistance are most critical to project feasibility?

Which option for such public assistance takes the longest to bring about? Should it then be acted on extremely quickly?

Can options be delayed until the latter stages of mine development, lessening the initial cost to the State?

Should the State Administration be approached on some proposals for aid, and the legislature for others?

What part can the local Village municipality play? Would it be better if they acted as the predominant spokesman for projects? Could the Village even receive facilities from the State, and then own and lease the facilities to a private party?

Could the Village municipality upgrade its status, borrow funds from the state (municipal bond bank), and then lease facilities to industry, plus levy a tax to recover for general unleased improvements which would tend to make the mining operation more feasible.

Example II is designed to show how the state can provide substantial benefits to the economic feasibility of a project, but without becoming an investor, or a loaner of money directly to the project. However, such proposals to government require lead-time. Government generally moves slowly, and there are further time lags for planning and engineering, and actual construction.

A good rule of thumb may be that requests for government related improvements to a project must run-ahead of the private timetable.

Examples I and II point out that there are a variety of means which there can be substantial state assistance to a

private economic venture. Generally, such assistance is through construction of related facilities of benefit which can be justified as BEING PUBLIC FOR REASONABLE PUBLIC BENEFIT. Additionally, there is substantial difference in benefits and the problems of bringing them about, between those services which can be termed general state services, and those which might be termed government utility services.

In the past, such options as outlined in Example I and II would have been precluded first simply by a lack of state money resources. Second, there would be serious questions concerning the expenditure of public dollars for private benefit. The purpose of economic creation in a depressed area in past times has not been considered a 'justifiable' purpose of government.

The traditional roles of government are perhaps really only roles we have become accustomed to. Hence, the non-traditional role of government might be defined as those areas where government has to intercede less frequently, and generally for some urgent and special purpose.

Hence, government has tended not to become an actual investor in, or participant in, private profit making economic projects. However, where there has been special reason government has done so under one justification or another. The crisis of the 1930's depression, followed by the crisis of a World War, pushed the federal government into new involvements with the private sector. The government provided jobs, loaned money, provide emergency relief programs, initiated permanent relief programs like our unemployment insurance programs, built and owned pipelines, tankers, and barges, dams, and developed a nationwide semi-private electrical system under the Rural Electrification Administration. The examples are endless, but least anyone think the pattern started with the 1930's depression, we should recall the federal government built, owns and

operates a railroad in Alaska, and Alaskans of the 1920's were delighted when the federal government went into that usually private business.

Since the 1930's the federal government has been active in the farm price support field, subsidy of certain commodities, in providing loans and credit to farmers, in the provision of special tax concessions to farmers, in construction and partial subsidy of irrigation projects. The federal government has maintained subsidy for airlines, and other forms of transportation, including marine shipping. In the post-war years, the federal government began activity in support of 'small business,' and initiated the Small Business Administration (EDA), the next generation of federal interest came with the war on poverty, the encouragement of cooperatives, the creation of organizations like the Community Enterprise Development Corporation (CEDC), and finally the civil rights movement produced the affirmative action programs and support for 'minority' business ventures.

However, despite all of the above, and much unmentioned, the myth of the 'separate worlds' of government and private ventures persists. It is a myth that native corporations will encounter with state policymakers, and project developers must always take care in handling the issue lest they provoke philosophical barriers that bar logical discussion and assessment of a project.

State and local governments have not been strong in the field of direct assistance to private development. The fundamental reason may largely be due to limited financial resources.

However, the State of Alaska with surplus oil funds has been flirting with such 'direct assistance' since 1970. And now, with oil royalty and tax revenue building up from

pipeline oil flow, the state will undoubtedly move strongly into 'development' investment participation during the next decade.

However, dealing generally with the posture of state and local governments, they have been cool to direct assistance, but often active in the area of providing local and state tax 'concessions.' However, the issue of tax concession (or forgiveness) can evoke heated philosophical difference among policymakers, and since 1970 Alaska has strongly held public policy to prohibit tax concessions by either state or local government.

During the past 10 years Alaska's state loan programs have expanded to more than \$200 million in direct loans, and moved from the concept of individual loans to citizens to loans commercial development. For example, a veterans home loan was larger simply to aid the veteran individually with financing of a home, but the newer Tourism Loan Program is designed to similarly aid the borrower, additionally attract new tourist dollars into the state, and perhaps to promote a new industry in an area of the state where financing is difficult.

However, the key point in Alaska State Government's limited, but changing relationship with the private sector, is predominately related to having enough money. Revenue from the state's oil resource has simply meant the state has sufficient money to meet the critical traditional services, and then has something left so that it cannot avoid entering the difficult arena of the economic plight of its rural residents.

Ten years ago, projects like the damming of the Fort Yukon slough were almost impossible. There simply was not enough state revenue. And, if one was funded, then there was ten more waiting in line to be treated similarly. As a result, the solution was likely to be that 'none' of such projects were funded. A hard-line was drawn and that line generally

held fast, reinforced by 'no money.'

Additionally, a decade ago or today, even traditional services in rural areas are extremely costly. The basic cost of building a proposed facility, is not only high due to high transportation and labor costs, but often the external infrastructure must also be built. The external infrastructure means that a school will also have to build its own sewer and water facilities, at great added cost. Hence, a school elsewhere just plugs into an adjacent utility system, in rural Alaska, the project more often than not, must build and pay for construction of its own, and then pay for its annual operating costs. The net result is that the per capita cost of delivering rural services, or building a one-or-two classroom school, often appears staggering to the people who must review such projects. Such disproportionate high costs are a real and emotional barrier to both rural, private and public projects.

However, such projects with 'private relationships' must still meet the requirements as public projects, and must remain within legal barriers. Such projects may prove more justifiable in rural areas where the Alaska economic benefits are more identifiable, and where potential profits may be assessed to determine whether a private enterprise is taking unreasonable advantage in softening state government concerns between what is public and what is private.

The present issues surrounding excess state revenues provide a glimpse of the state of the future growing relationship between the State and private investment as a development tool.

A great deal of the Permanent Fund debate centers on how much of the excess state capital should be available as participating investment capital within the state -- partnership capital with domestic corporations and native corporations.

In addition, considerable debate has centered on state participation in Alcan Pipeline Financing, on similar issues in the state sale of royalty oil and gas. Former Governor William Egan seriously proposed state ownership of the Alyeska Oil Pipeline, and the state's 1972 Pipeline Right-of-Way Leasing Act originally has a provision for purchasing an equity portion of the oil pipeline.

All of these things represent the change slowly taking place in terms of what is an acceptable relationship, and mutual involvement between, the state and private enterprise when it comes to development investment. The changing relationship should be to the advantage of the native regional and village corporations, since they represent an assured hometown corporation with similar social and economic goals as the state. However, change in policy comes in bits-and-pieces, and native corporations will have to be aware of, and wary of, state partnership capital as direct investment in equity and debt, or as guarantees, in the beginning years of the 1980's.

# STRUCTURE of STATE GOV'T

STRUCTURE OF ALASKA STATE GOVERNMENT

Village Corporation Activity Area No. 6  
Government  
Village Management Assistance Program  
Alaska Native Foundation

The structure of state government is relatively simple if it is viewed as a series of 'specialized pieces'. Each piece serves some need.

The pyramid on top of the pieces coordinates the pieces, supports the pieces, and acts as a source of 'appeal' when problems and needs don't fit the pieces.

Approaching state government requires determining "what's the problem", and "what's the piece" it fits in.

If the problem doesn't fit, or is a new 'need', then the task is to find out who up the administrator/policymaker pyramid can help make it fit.

#### VIEWS AS A WAREHOUSE . . .

Viewed as pieces, the structure of Alaska State Government is something like a series of warehouses. Each warehouse provides different tools and services.

However, the Government warehouses aren't known for their desire to advertise for new problems. They have enough problems, and the Alaska State Government is no exception.

Understanding the structure of state government is understanding what tools to ask for, where, when, and learning how to use them. It helps to know which

warehouseman has authority to issue tools and send out the mechanic.

Plus, it helps to know the 'foreman' who can help get tools the warehouse doesn't have in stock.

#### OF COURSE GOVERNMENT'S LARGE . . .

Alaska State Government is large, but that doesn't always mean its complicated. It has 14,211 employees, operates 14-major departments, a Court System, a University system, and a variety of special 'offices', commissions, and boards.

The figure of 14,211 employees may surprise you but Alaska State Government administers for 400,000 people spread over a giant landmass in a very uneconomic and inefficient manner. Additionally, Alaska State Government is in many instances a substitute local government, operating services that are not carried out by states elsewhere.

Alaska State Government is simple, however, when compared with the bewildering complexities of most other state governments. The State had the benefit of writing its constitution as late as 1955, and implementing its government structure only 18 years ago.

Alaska benefited from the problems of other states. We were able to implement what other states are still

struggling towards, a structure of state government that has some hope of functioning efficiently, and of being accountable for actions.

THE GOVERNOR: IN THE END IT'S HIS FAULT

Basically, in Alaska we have developed a centralized concept where theoretically all responsibility leads to the top -- the Governor.

We have 'one' statewide elected administrator, assuming the Lt. Governor's a standby. The Governor gets the praises, and in the end the blame. The central point in the Alaska system is that the Governor is the sole 'accountable person' ... there are not one, two, three, or more elected state officials who can dilute responsibility and, thus, confuse the public.

Oddly, in most other States the Governor isn't responsible for much of state government. Some of the most important functions may be headed by another elected official, even of the opposite party.

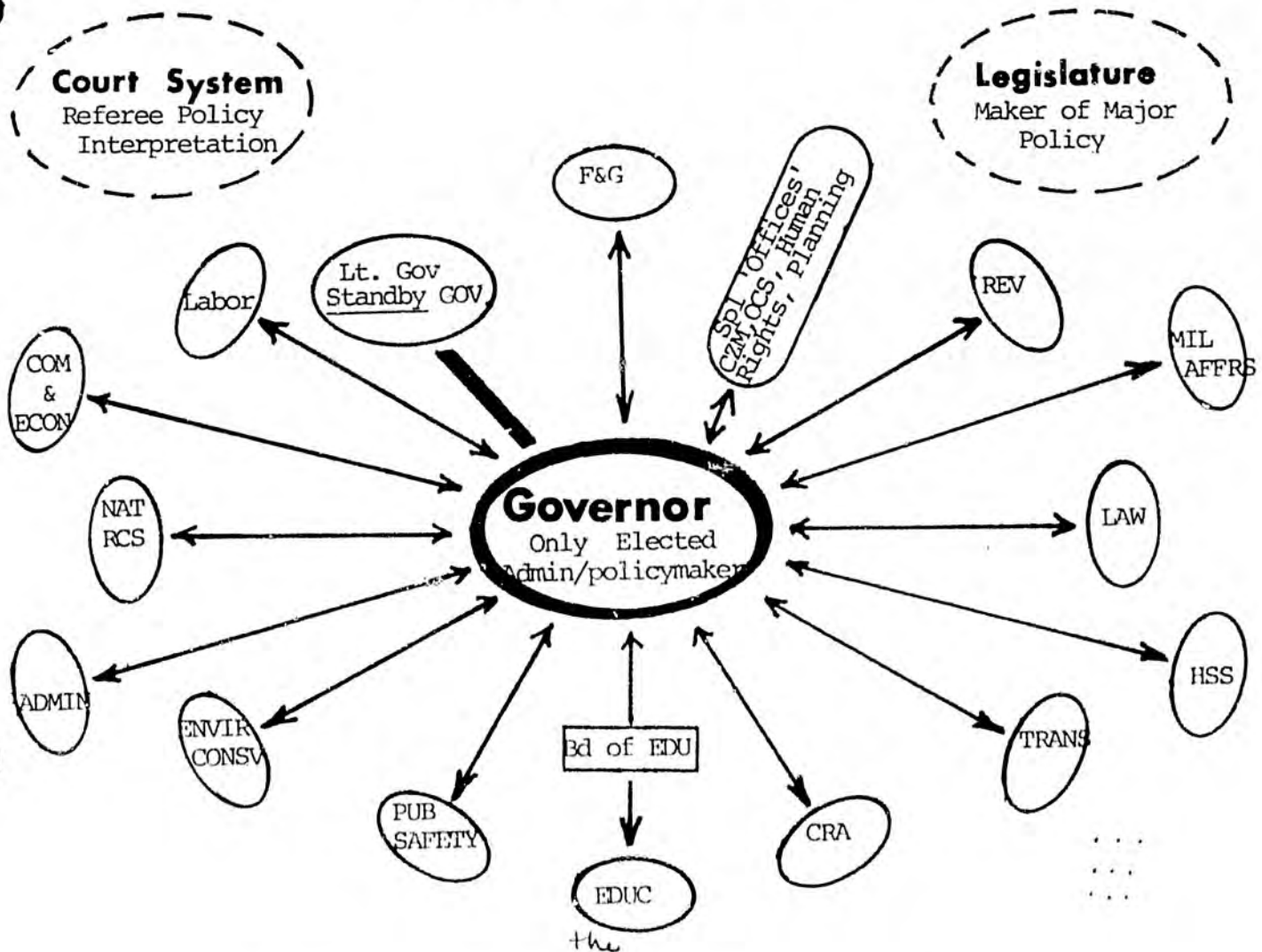
Further, such Governors face elected boards, or boards with non-removable members -- who can thumb their nose at Governor and public alike.

The reality in many other states is a state administration headed by a 'number' of elected Governors --

something like a committee of Governors -- who may, or may not, even like each other. The net result is a loss of who is accountable for actions, and an ease of dodging responsibility and passing the buck, and the problem, on to the next bureaucrat.

But, back to the Alaska premise. In Alaska if you can't find a door to open that fits the problem, there's always one last door to open that will inescapably fit the problem -- the Governor's.

# Alaska Structure



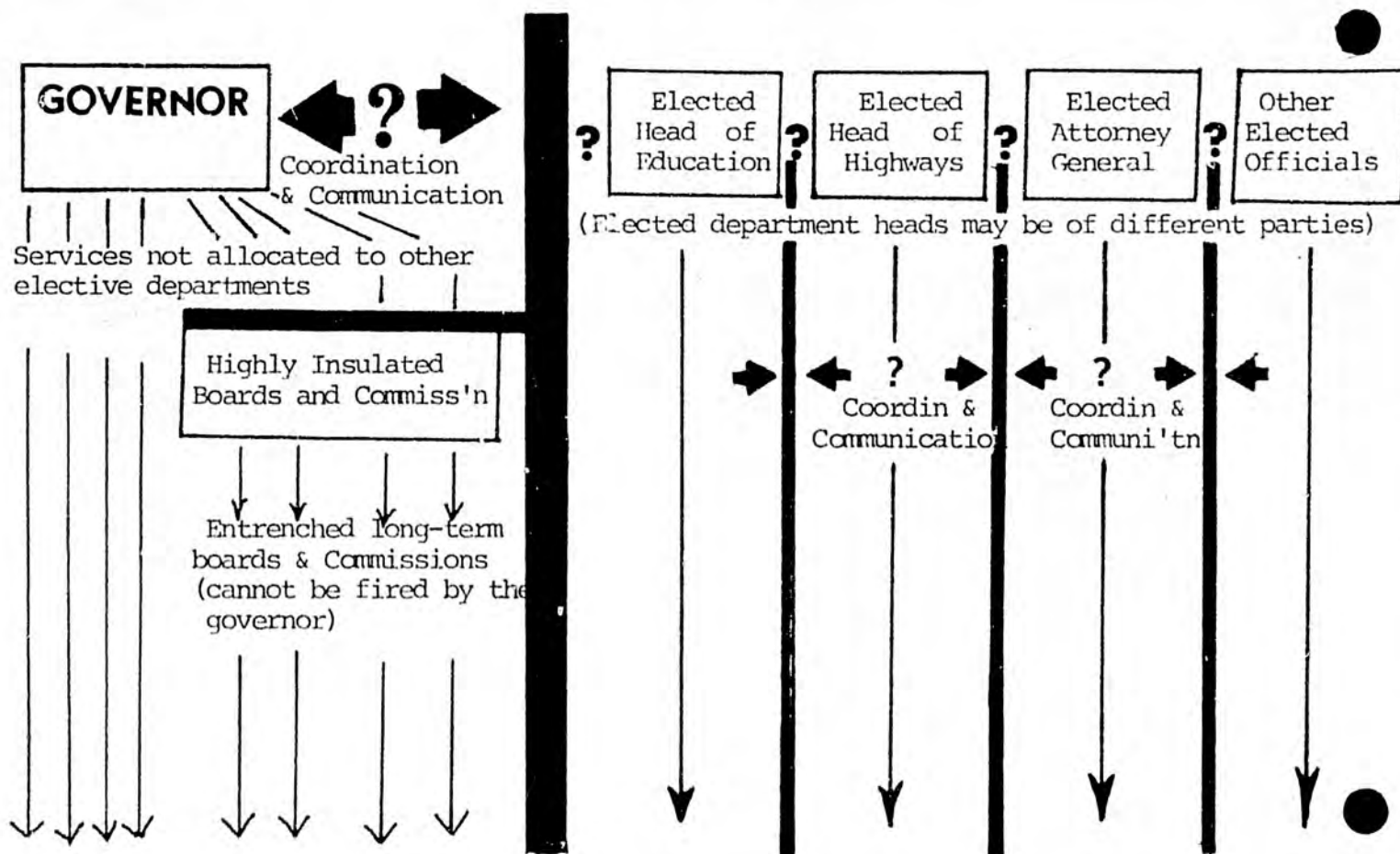
The GOVERNOR is the 'sole' official with final responsibility for directing all state policy and management (services).

An ALASKA GOVERNOR has 'nowhere' to pass-the-buck.

An ALASKA GOVERNOR is ultimately responsible for the success of state actions, the disasters of actions, and the failures to act.

The CONCEPT is accountability -- being able to fix blame!

## Other States



In OTHER STATES the executive structure is 'fractured', with different services being controlled by different 'independently' elected department heads. SUCH STATES LITERALLY ELECT A COMMITTEE OF GOVERNORS.

Other states also have numbers of independent commissions, which cannot be removed by a new administration, with the result policy changes very slowly. Such boards in other states may even direct policy in a department.

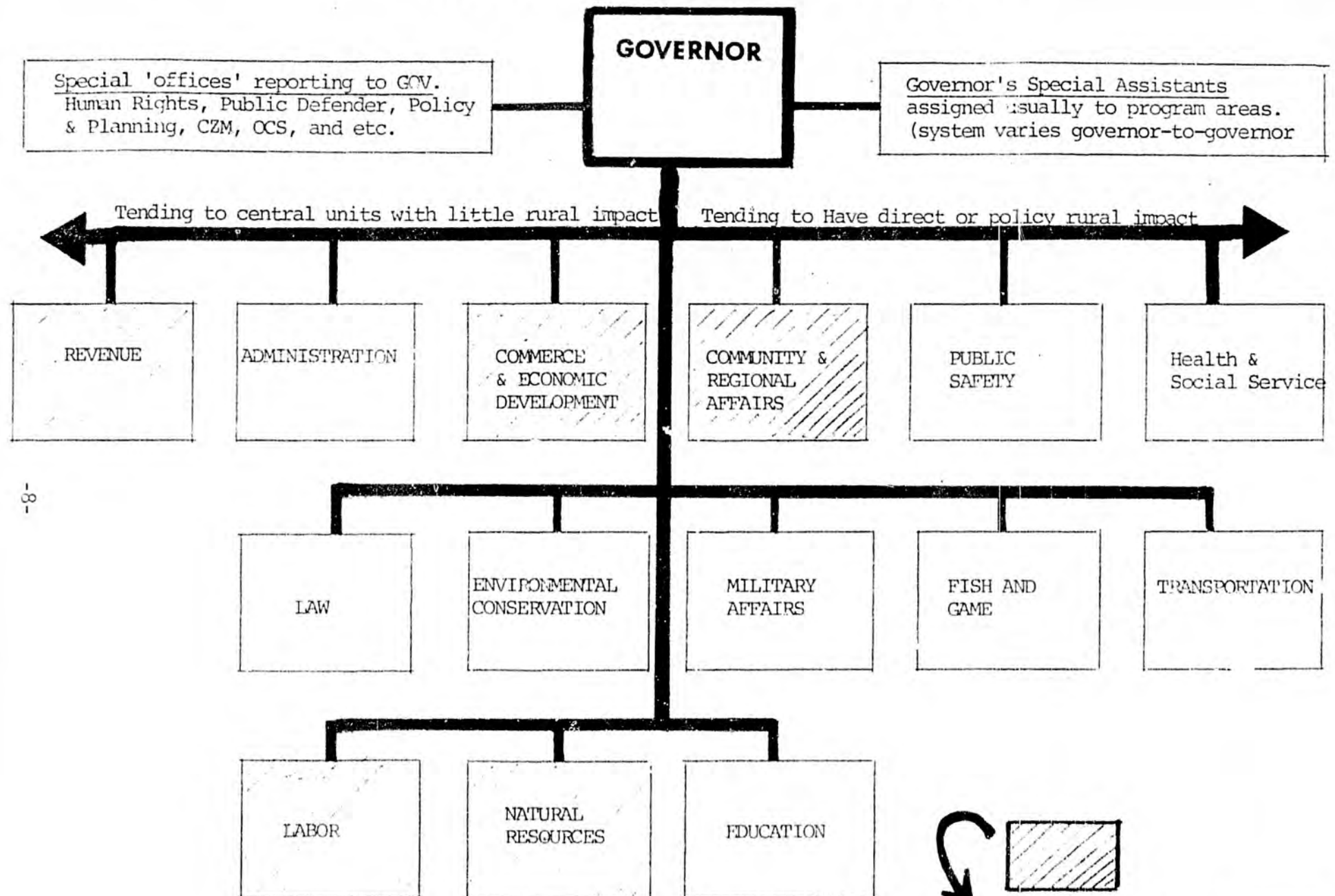
Under fractured system there is no assurance of cooperation and coordination on a common issue.

It is the executive branch, and only this branch, of government which can actually deliver services.

It is important to remember that the Legislature 'is not' an administrator, a deliverer, of services. The Legislature provides for a broad workable policy, and then provides the means -- the money -- of implementing that policy.

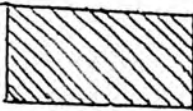
The point should be made, as the executive branch is examined, that the Legislature is essentially ON THE PUBLIC'S SIDE. Basically, the Legislature is a group of laymen trying to find a way to resolve a problem, or the means to deliver a service without creating legal inequities among citizens.

# STRUCTURE ALASKA STATE GOVERNMENT



NOTE: CROSS-HATCH BOXES INDICATE HIGH IMPACT ON VILLAGES AS VILLAGE 'CORPORATIONS' AS OPPOSED TO GOVERNMENTS AND COMMUNITIES.  
(See Next page 8-b)

## THE STRUCTURE IN TERMS OF VILLAGE CORPORATION IMPACT

The cross-hatched boxes  on the previous page

indicate departments with direct relationship to the business functions of Village Corporations. It should be stressed that the relationship of government to the community is different than to the corporation.

COMMERCE AND ECONOMIC DEVELOPMENT: This department handles incorporations, annual reports, business loans for which corporations might qualify, and in the future will handle state technical assistance to business.

COMMUNITY AND REGIONAL AFFAIRS: This department has a high degree of relationship to the rural community on the 'village' as government side. However, it is also trustee for village lands of unorganized communities under certain provisions of the Land Claims Act (municipal lands).

NATURAL RESOURCES: The corporation will have a relationship to the Department of Natural Resources, especially the lands Division, in development of lands, seeking easements across state lands, and in relation to certain permits involved in resource development.

DEPARTMENT OF REVENUE: As an employer and taxpayer the Village Corporation will have a relationship with the State Department of Revenue, which collects individual taxes, corporate taxes, and gross business taxes from ALL CORPORATIONS IN THE STATE, including the Native Village Corporations.

DEPARTMENT OF LABOR: Again, as an employer the Village Corporation will have a relationship with the Department of Labor, as does any other state corporation and employer.

Alaska State Government is divided into 14-major administrative departments. It is limited by the State Constitution to 21-departments, has been as high as 16-departments, and recently consolidated to 14-units. Departments vary greatly in size, with the Department of Transportation employing 3,194 people, and the Department of Environmental Conservation only 119.

Departments vary greatly in purpose. Some departments are deliverers of 'direct services', such as public safety, while other departments are basically planning, indirect processing, indirect management, or administrative support departments, and do NOT HAVE STRONG DIRECT CONTACT WITH THE CITIZEN. The Departments of Administration and Revenue are such 'low citizen contact' departments.

Seven departments have a strong rural relationship, but only about five have a direct rural presence.

Departments which are physically present in rural areas are:

- 1) Transportation
- 2) Health & Social Services
- 3) Public Safety
- 4) Community & Regional Affairs
- 5) Fish and Game

However, other departments such as Education, Natural Resources, and Environmental Conservation, have a strong,

less direct, impact on rural areas.

The 'presence' of State functions outside Juneau, Anchorage, and Fairbanks, can be seen from the following figures.

| <u>Department</u>        | <u>Total Employees</u> | <u>Employees Outside<br/>Juno/Anc/Fairbanks</u> |
|--------------------------|------------------------|-------------------------------------------------|
| Governor Office          | 326                    | 21                                              |
| Law                      | 174                    | 17                                              |
| Revenue                  | 256                    | 10                                              |
| Education                | 435                    | 77                                              |
| Labor                    | 768                    | 77                                              |
| Commerce                 | 252                    | 3                                               |
| Environ' Conservation    | 119                    | 15                                              |
| Natural Resources        | 504                    | 144                                             |
| Public Safety            | 847                    | 313                                             |
| Fish and Game            | 875                    | 364                                             |
| Community & Reg. Affairs | 159                    | 14                                              |
| Health and Social Serv.  | 1,801                  | 461                                             |
| Transportation           | 3,194                  | 1,117                                           |
| Court System             | 483                    | 120                                             |
| University of Alaska     | 2,857                  | 359                                             |

\*Not included: Military Affairs and Administration

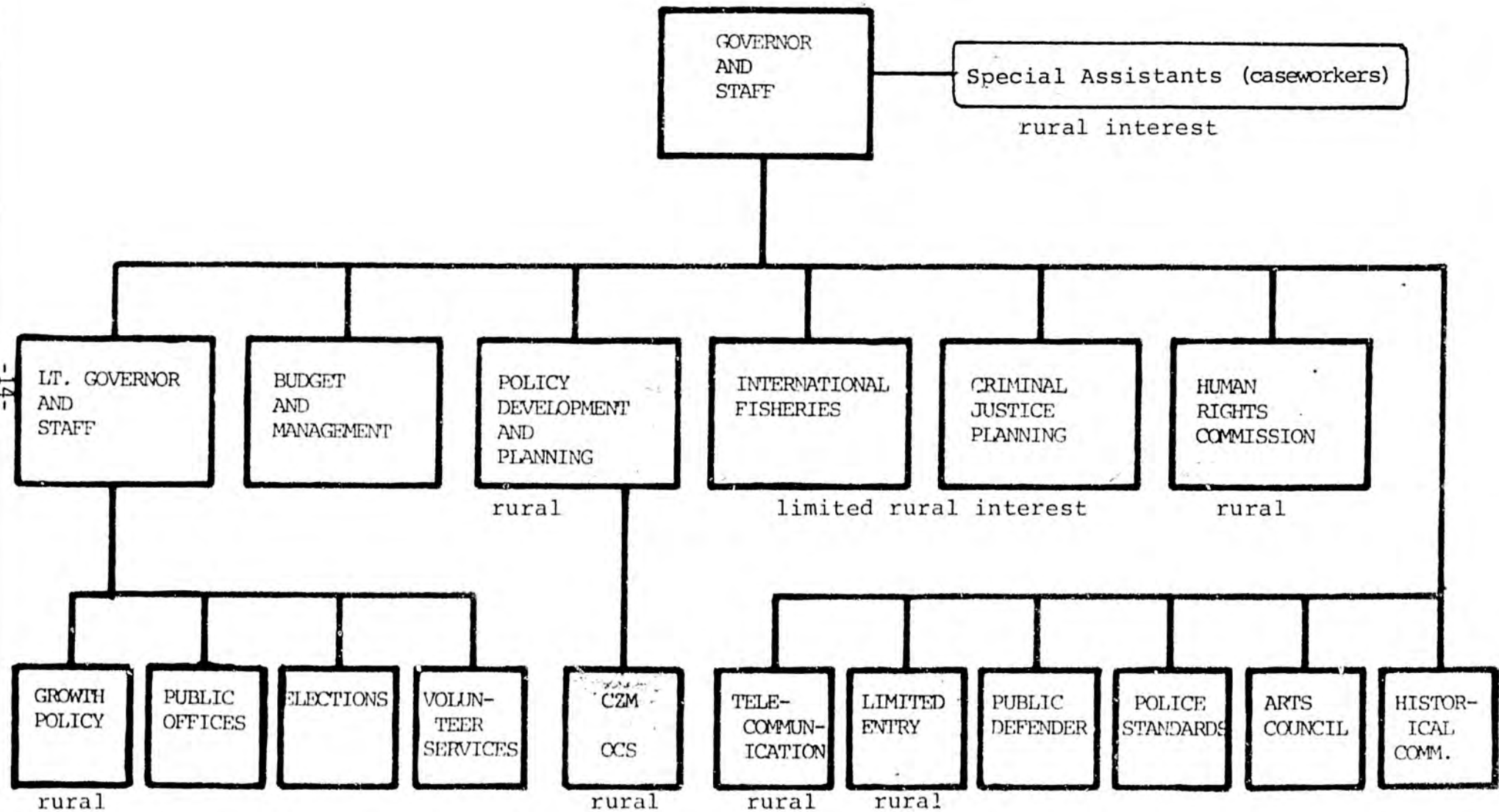
---

Viewed another way there are:

- 3,597 employees in Juneau
- 4,444 employees in Anchorage
- 2,913 employees in Fairbanks
- 3,363 employees in the rest of the State  
(a large percentage of which are involved in  
highway constuction and maintenance.)



OFFICE OF THE GOVERNOR



## Governor's Office

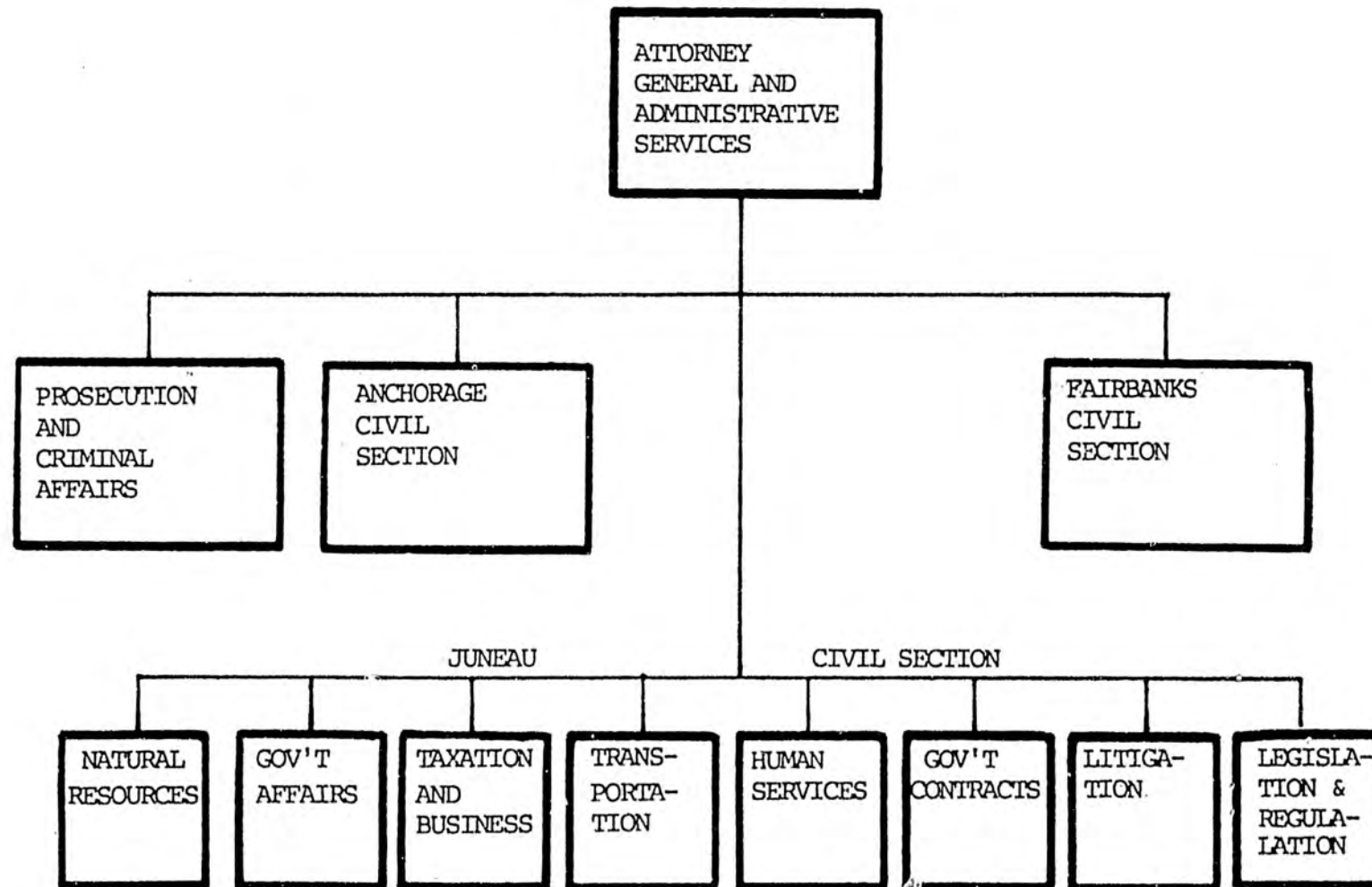
The Governor's actual 'personal staff' is relatively small.

Most of the 326 employees of the Governor's Office belong to special offices attached to the Office of the Governor, which either represent planning functions or 'unique' functions that do not fit logically into some other regular Department.

The most important rural functions are:

- 1) SPECIAL ASSISTANTS (case workers): This is an informal group of assistants that work on current 'brushfire' problems for the Governor. Every governor handles such staff differently, but each usually handles a number of departmental 'interest areas'.
- 2) POLICY DEVELOPMENT AND PLANNING: This office can be what a governor wishes to make of it, but generally it handles longer-range planning issues. Currently THE COASTAL ZONE MANAGEMENT and OFFSHORE OIL units report to this office.
- 3) HUMAN RIGHTS COMMISSION: A highly independent office working under policy of the Human Rights Commission. It is in the Governor's Office because it may have to investigate other agencies and must be as independent of them as possible.
- 4) TELECOMMUNICATIONS: A new office dealing with problems of communications service and telecommunications technology, especially in rural areas.
- 5) GROWTH POLICY COUNCIL/LIMITED ENTRY COMMISSION: The Growth Policy Council is a public-participation issue unit; while the Limited Entry Commission is in charge of issuing commercial fishing permits.

DEPARTMENT OF LAW



## Department of Law

The Department of Law, headed by the Attorney General, is the legal arm of the State.

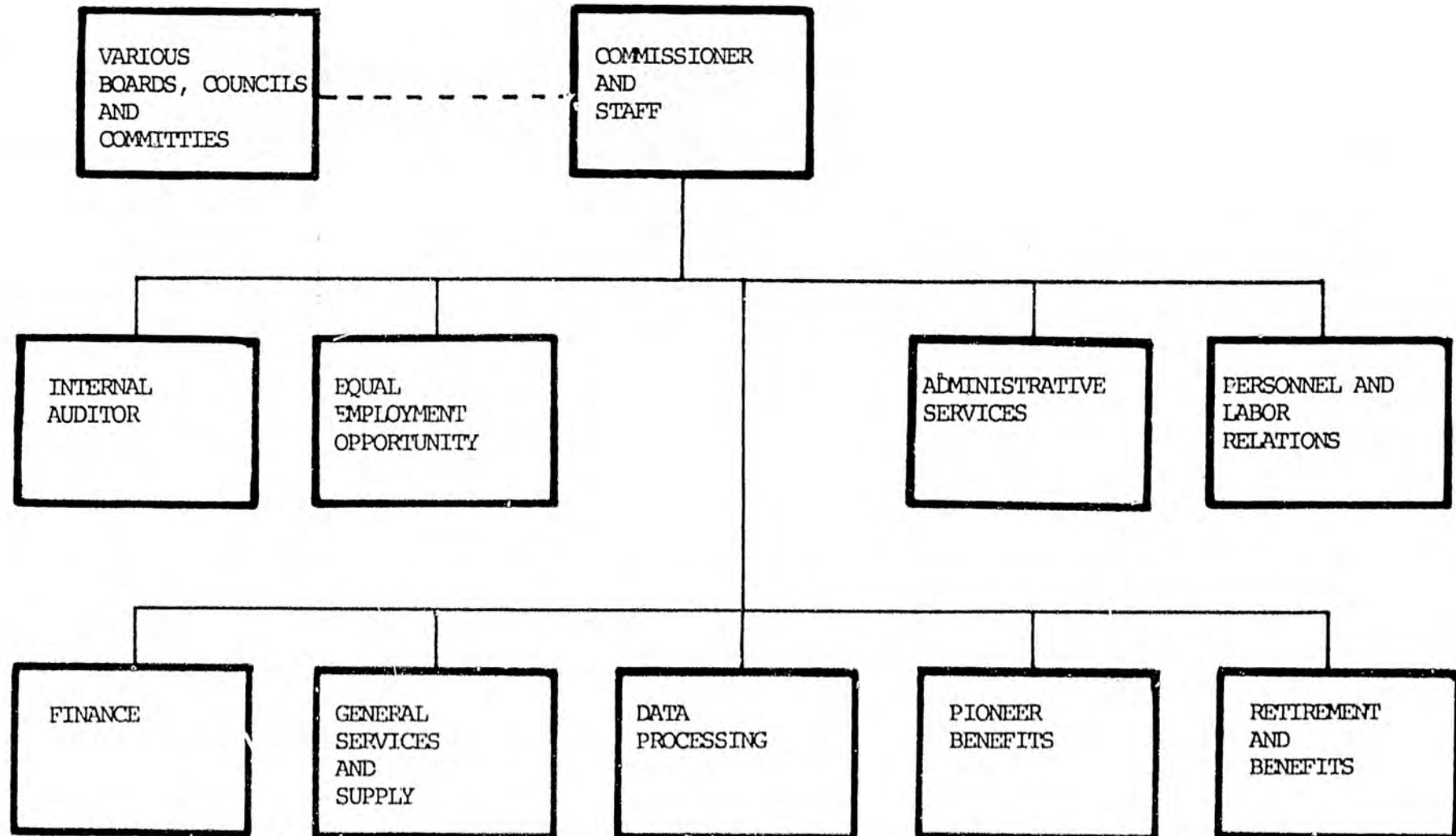
The Department has 174 employees, all but 17 of whom are working in Juneau, Anchorage, and Fairbanks. Employees are generally located in cities where Superior Court Judges are assigned.

### Legal Advice

- 1) The Department provides the Governor with his primary source of legal advice on pending and future legal and policy issues.
- 2) CRIMINAL PROSECUTION: The Division's best known function is the prosecution of criminal offenses.
- 3) CIVIL SECTION: The Department of Law must also enter into civil suit in behalf of the state's interests, and the individual public, in such categories as taxation and business, human rights, consumer protection, state regulation, etc.

The Attorney General tends to also be a right-hand political advisor to the Governor, especially where technical/legal issues are involved. Many rural issues, including complex land and tax issues relating to land claims, often end up on the Attorney General's desk.

DEPARTMENT OF ADMINISTRATION



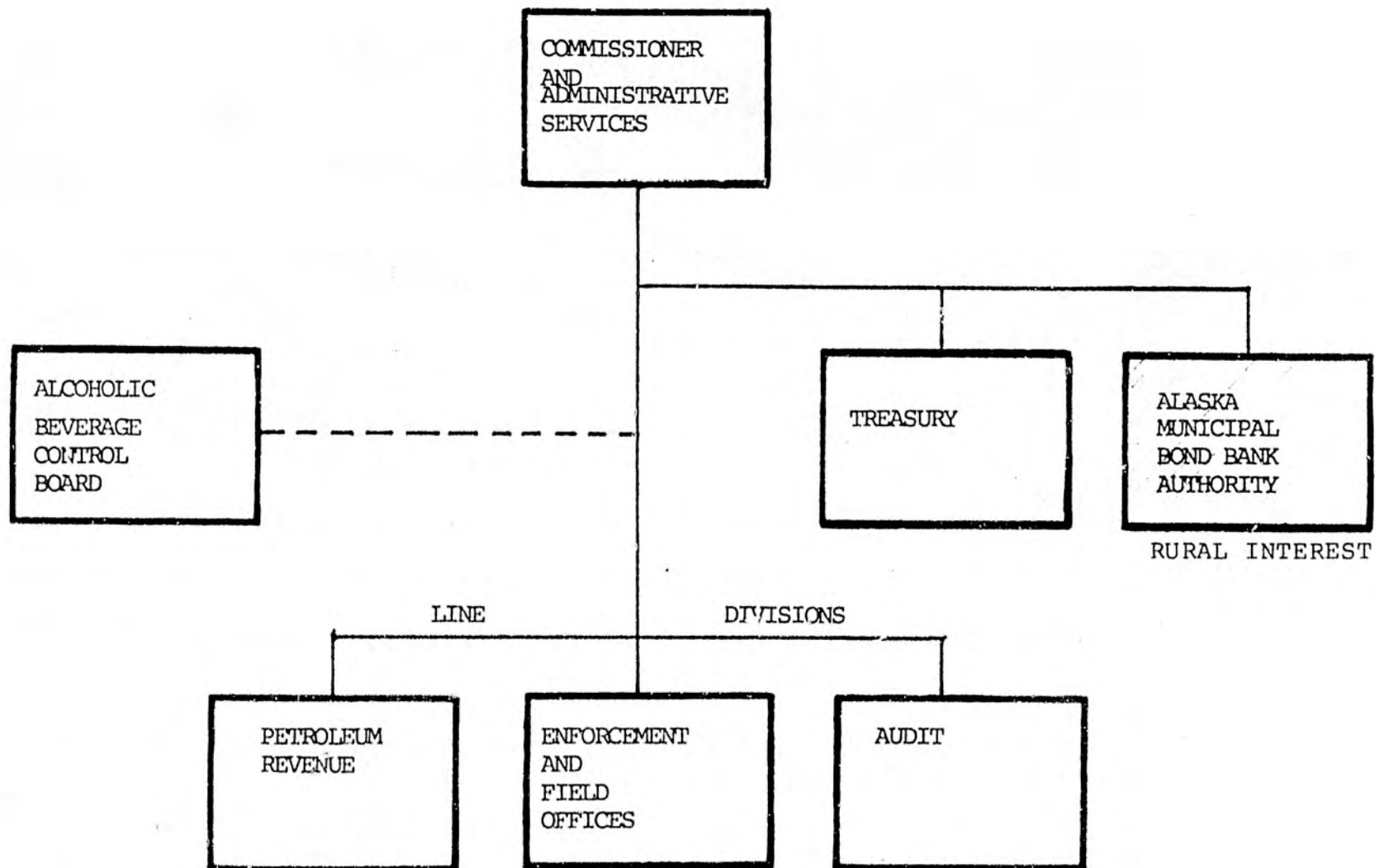
## Department of Administration

The Department of Administration basically is an 'internal' State agency. It supports other State departments with such services as SUPPLY, DATA PROCESSING, ADMINISTRATIVE SERVICES, and operates the PERSONNEL SYSTEM, and the STATE LABOR RELATIONS AGENCY.

The only two direct-to-citizen services operated by the Department are PIONEER BENEFITS and RETIREMENT BENEFITS.

The Department has little direct involvement with rural issues.

DEPARTMENT OF REVENUE



## Department of Revenue

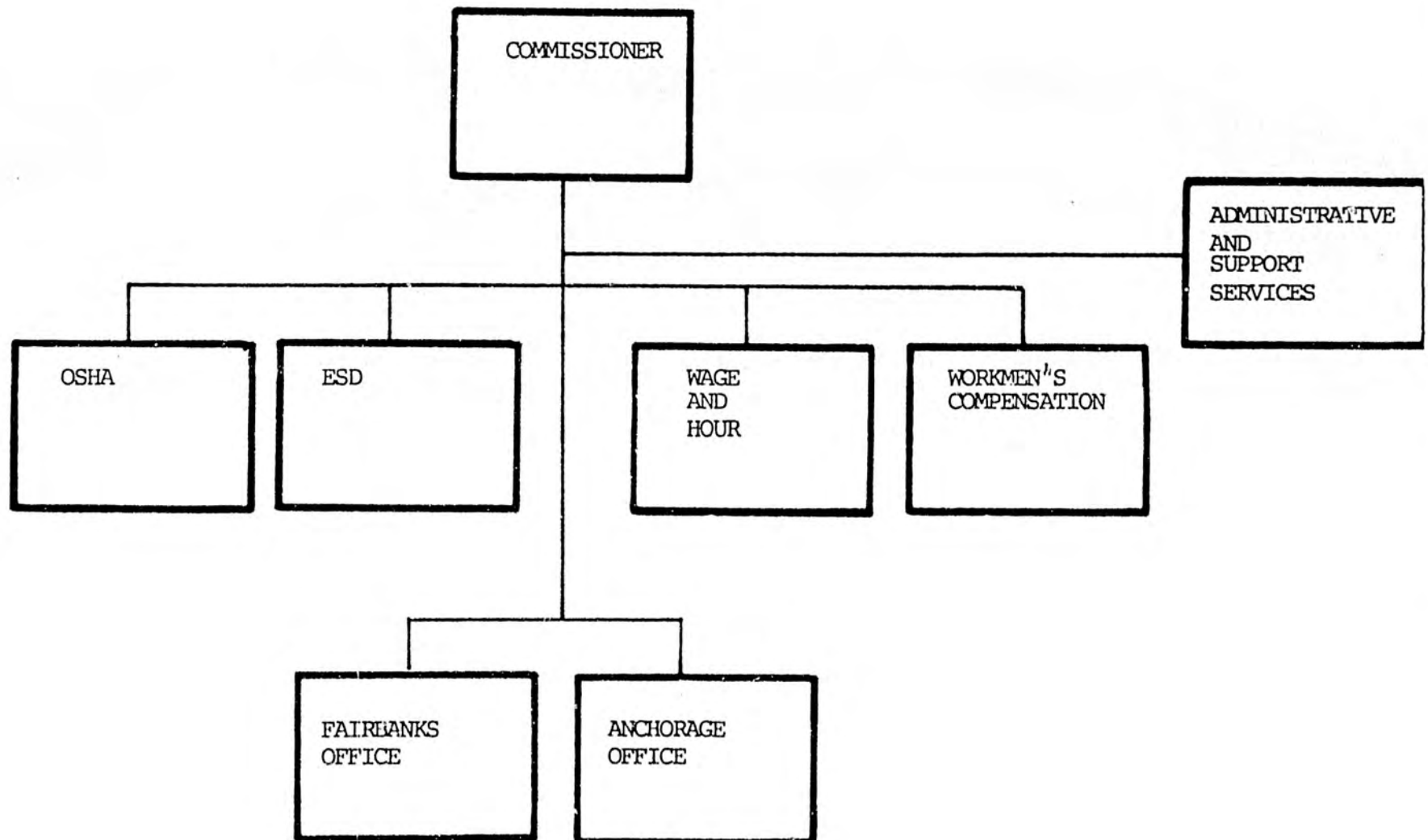
The State Department of Revenue is largely an internal State support department, but does deliver direct-service to citizens as a processor of individual and business taxes.

The Department of Revenue operates the MUNICIPAL BOND BANK, which purchases small community bonds, and could become involved with industrial bonds of small communities which might relate to activities of Native corporations in certain instances. The Bond Bank is located in Anchorage.

The Department also operates the Alcoholic Beverage Control Board, which licenses liquor establishments, and also enforces liquor licensing regulation and law.

The Department has 256 employees, of which only 10 are located outside Juneau, Anchorage, and Fairbanks.

DEPARTMENT OF LABOR



## Department of Labor

The Department of Labor is also a centralized department. The Department provides citizen services, but only from the central locations of Fairbanks, Anchorage, and Juneau.

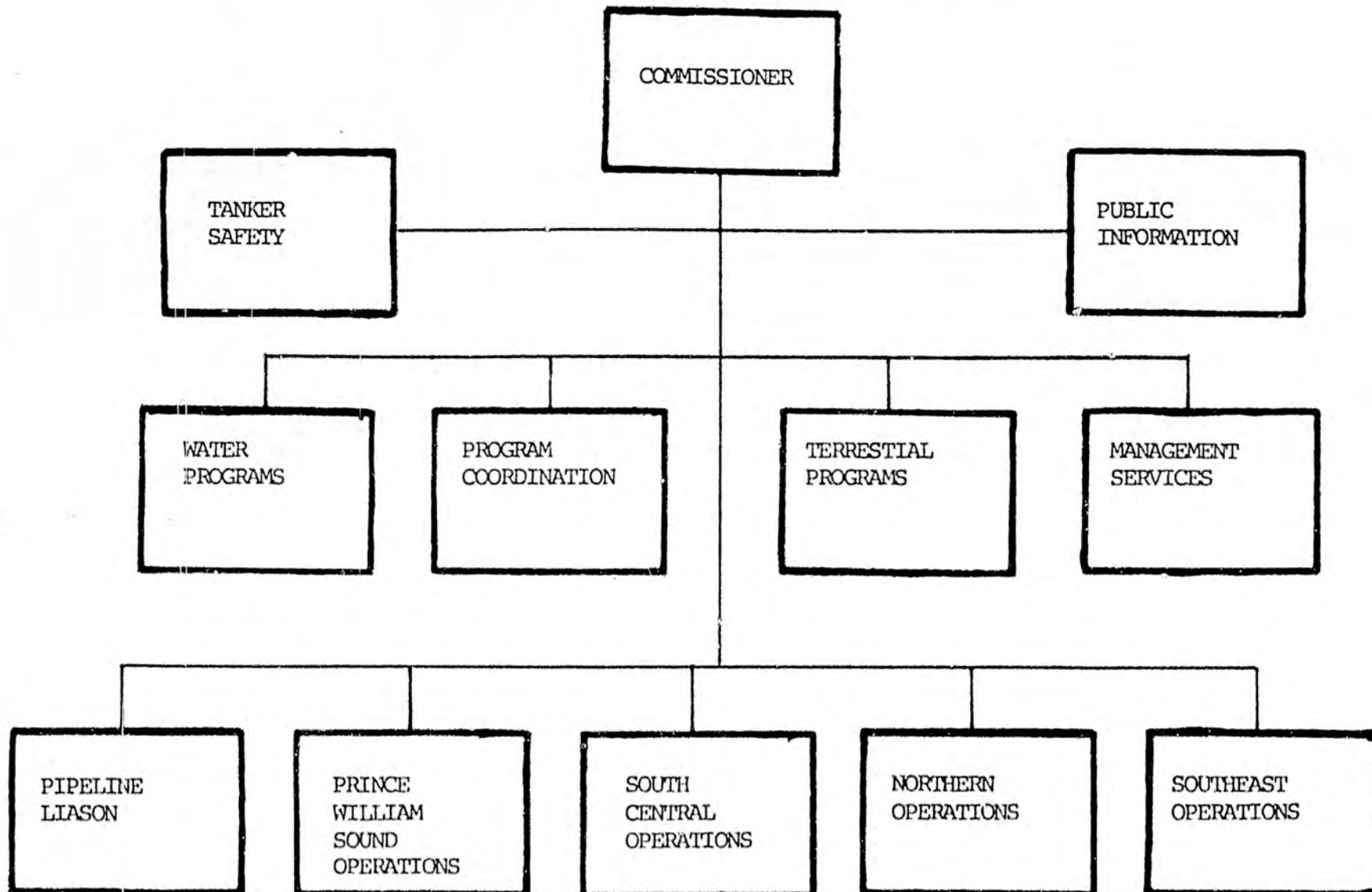
A 'regional' office of the Commissioner, staffed by a Deputy, is maintained in Fairbanks and Anchorage. These field offices are good general information contacts with the Department.

The Department also administers the Jobs Service and Employment Security agencies, which are located in all large and medium sized Alaskan communities. The Jobs Service program is charged with matching employers with employees. Employment Security administers unemployment insurance.

The Department is in charge of: 1) enforcing occupational health and safety laws, 2) wage and hour law, 3) workman's compensation benefits, 4) unemployment security benefits, and such additional regulations as State local hire laws.

The Department has considerable rural impact, particularly in respect to development of local hire policies, and the impact upon individuals of unemployment compensation and job finding assistance.

DEPARTMENT OF ENVIRONMENTAL CONSERVATION



## Department of Environmental Conservation

The Department of Environmental Conservation is charged with policing private and other public agencies in protection of the State's natural and man-made environment (in concert with development and resource usage).

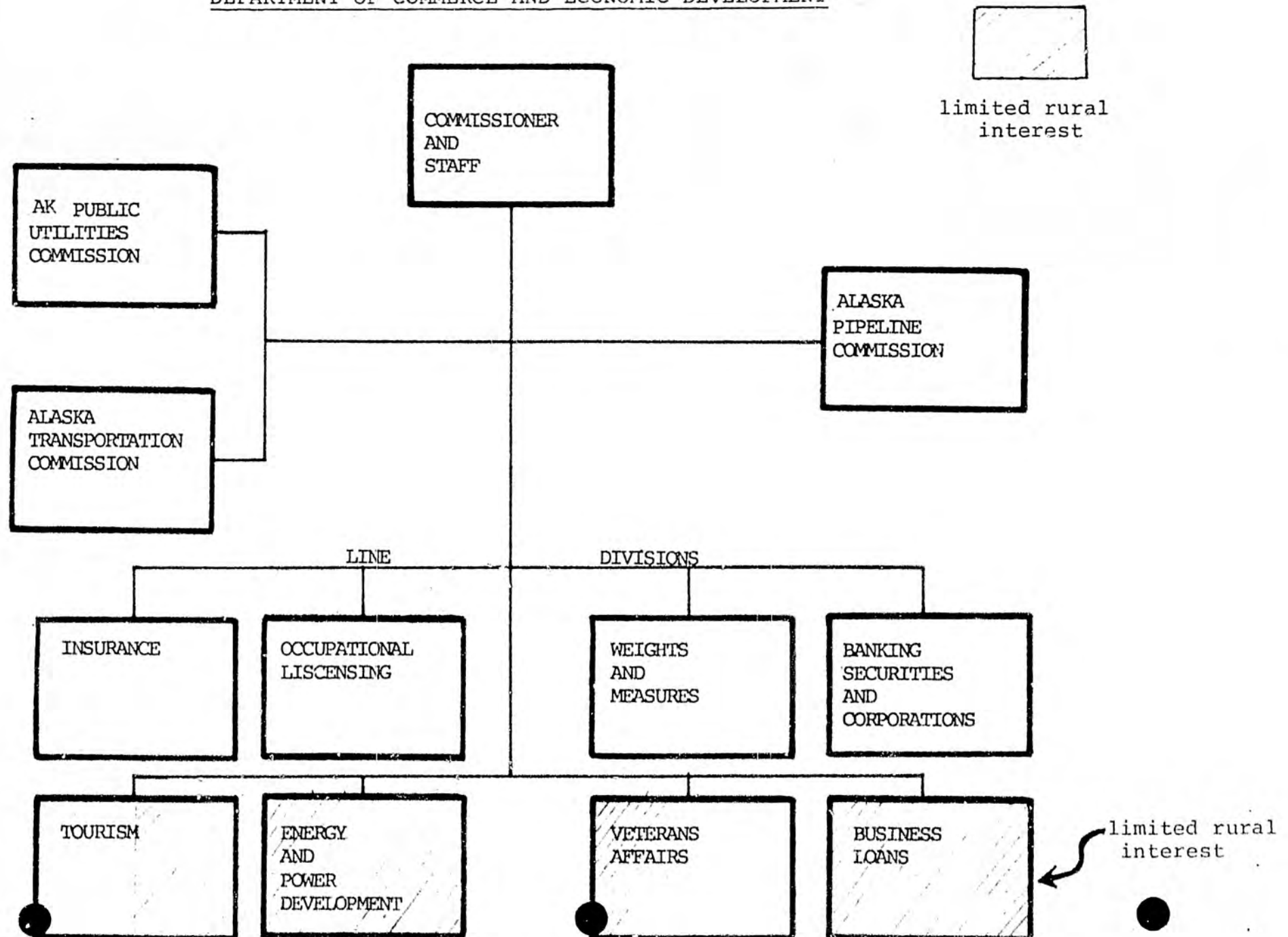
The Department is the State's smallest with 119 employees, with only 15 people located outside Juneau, Anchorage, and Fairbanks.

The Department is charged with such specilized responsibilities as TANKER SAFETY, PIPELINE LIAISON, and PUBLIC INFORMATION. The Department then has a Division of WATER PROGRAMS, and a Division of TERRESTRIAL PROGRAMS.

The best public contact with the Department is through regional offices maintained in Fairbanks, Anchorage, Juneau, Soldotna, and Valdez.

The Department is not particularly rurally oriented at this time, but rural projects (large or small) can become the subject of Department 'policing' as easily as an urban project. The chief relation with the Department may be to be sure a project conforms to Departmental requirements.

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT



## Department of Commerce and Economic Development

The Department operates the State's primary regulatory functions, and provides services relating to business and commerce.

1) REGULATORY COMMISSIONS: Independent quasi-judicial commissions with rural impact are the ALASKA PUBLIC UTILITY COMMISSION (setting utility rates), and THE ALASKA TRANSPORTATION COMMISSION, setting freight and passenger tariffs. The Alaska Pipeline Commission is also part of the Department.

The Department has eight Divisions with about three and one-half of them having some rural, or potential rural, impact.

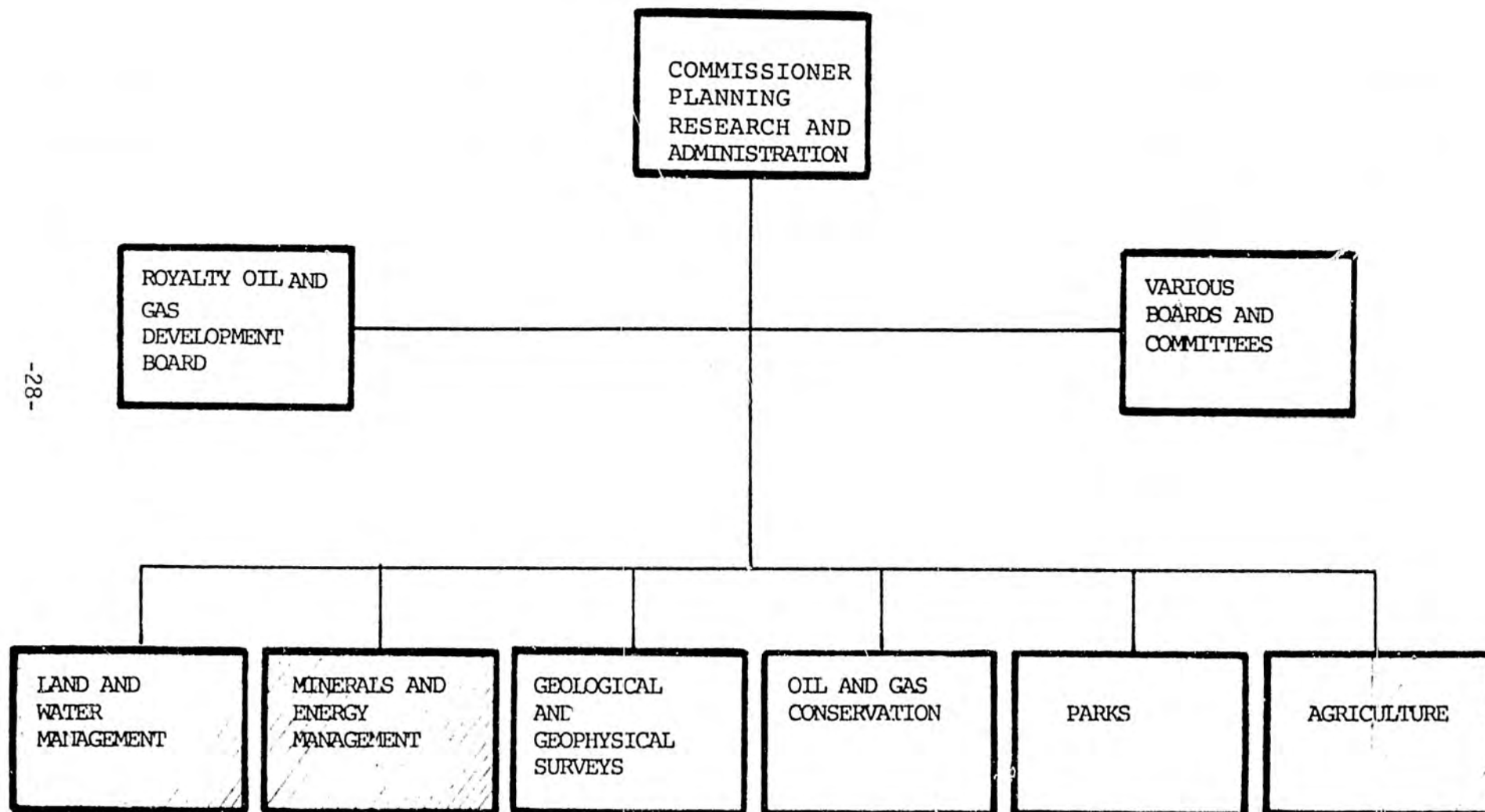
2) DIVISIONS OF BUSINESS LOANS & VETERANS LOANS: Both programs may offer loans in rural areas. Additionally, national guardsmen can receive loans under certain conditions.

3) ASHA & ALASKA HOUSING FINANCE: The Alaska State Housing Authority provides loan assistance to individuals in certain income brackets. The AHFC operates its low and moderate income housing loan programs through local banks.

4) DIVISION OF ENERGY AND DIVISION OF TOURISM: Both of these Divisions may become more involved with rural areas. The Division of Energy is the states energy planning agency. The Division of Tourism could prove a valuable ally in promotion of rural tourism enterprises.

The Department of Commerce is now predominantly located in Anchorage and Juneau, having three employees outside urban centers. However, with village corporation development the Department may be called upon to assist rural Native Corporations to a greater and greater extent.

DEPARTMENT OF NATURAL RESOURCES



↖ limited rural interest

## Department of Natural Resources

Primarily, the Department is the manager of the State's land and resource assets, and as such is fundamentally a planning and management agency.

The Department has six Divisions, of which only two have rural impact. They are the Divisions of:

- 1) AGRICULTURE
- 2) PARKS
- 3) OIL AND GAS CONSERVATION
- 4) GEOLOGICAL SURVEY
- 5) MINERALS AND ENERGY DEVELOPMENT
- 6) LAND AND WATER MANAGEMENT.

Only the Division of Land and Water Management has an existing relationship to rural needs; the Division of Energy Management has a strong probability of rural relationship; and the Division of Agriculture has a potential for rural service.

Presently, only the Division of Land and Water Management's forestry unit has a broad geographical spread, with employees located mostly in the Southeastern and Southcentral parts of the State.

The Commissioner's office is located in Juneau, and all other Divisions are located in Anchorage or Southcentral Alaska. The Department has 504 employees, with 38 in Juneau, 271 in Anchorage, and 144 in other areas.

DEPARTMENT OF EDUCATION

STATE BOARD

COMMISSIONER  
AND  
STAFF

PLANNING  
AND  
RESEARCH

COMMISSION ON  
POST SECONDARY  
EDUCATION

rural interest

PUBLIC  
BROADCASTING

PROFESSIONAL  
TEACHING  
PRACTICES  
COMMISSION

AK. RURAL  
TRAINING  
CORPS

SCHOOL  
DISTRICT  
RELATIONS

PERSONNEL

LIBRARIES  
AND  
MUSEUMS

EDUCATIONAL  
PROGRAM  
SUPPORT

PUBLIC  
INFORMATION

MANAGEMENT  
LAW AND  
FINANCE

VOCATIONAL  
REHABILITATION

## Department of Education

The Department of Education has statutory responsibility for the funding, auditing, and supervision of borough and regional schools.

The Department does not deliver a service directly to the citizen, but rather functions through its relationship to urban and REAA Schools.

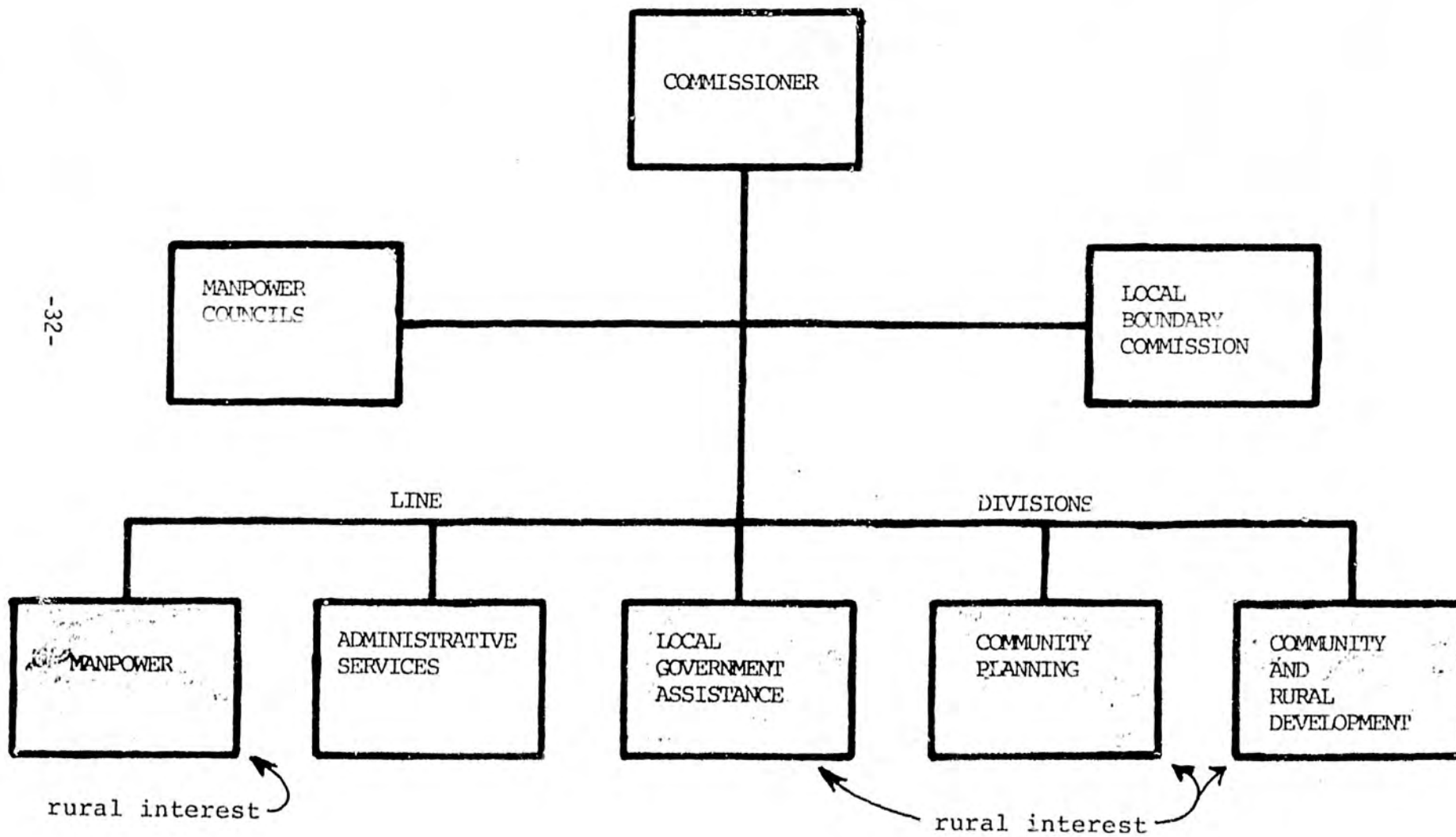
The Department has 435 employees, most located in Juneau and Anchorage.

Divisions of rural interest are:

- 1) PLANNING AND RESEARCH: A resource to be used for seeking solutions to the unique problems small communities have with their education systems.
- 2) PUBLIC BROADCASTING: Operated by the Public Broadcasting Commission. The Division apportions funds to stations for public broadcast operation and construction.
- 3) LIBRARIES AND MUSEUM: The State Library provides services and assistance to rural libraries, both through the central facility, and through regional centers.
- 4) X-CEED: A special unit charged with the development of rural instructional teaching capability.

The Department must also approve district school construction plans, and may prove more active in rural issues since creation of the new REAAs and dissolution of the old A.S.O.S. (Alaska State Operated Schools) system.

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS



## Department of Community & Regional Affairs

The Department is a small organization of 159 employees, with 14 employees located outside Fairbanks, Anchorage, and Juneau. The purpose of the Department is to provide maximum assistance to communities at the regional level.

The Department is small but, of all the State agencies, Community and Regional Affairs is the number one service agent in the rural areas. The Department consists of:

- 1) COMMUNITY & RURAL DEVELOPMENT DIVISION: Operates a rural assistance program for small projects. One of the State's oldest rural programs.
- 2) COMMUNITY PLANNING DIVISION: Provides assistance to small governments in planning and development. Provides technical assistance on request.
- 3) LOCAL GOVERNMENT ASSISTANCE DIVISION: Carries out certain statutory obligations of the Department in regard to local government, assists in governmental formation, collects and provides local government data.
- 4) MANPOWER DIVISION: The Department is now responsible for federally related manpower training and employment programs.

The Department operates field offices in Juneau, Fairbanks, Anchorage, Nome, and Bethel. The Department is also the trustee under the Alaska Native Claims Settlement Act for municipal lands located in unincorporated villages.

The Department has an 'active' reputation, and can assist in coordinating rural community, or corporation, needs with other departments of the State government.