SCOMM

#18:2

18:02

THE ALASKA PERMANENT FUND

and

OTHER SIGNIFICANT WORLD FUNDS

The following report provides a comparative review of other significant resource based monetary funds, and development banks throughout the World, in relation to the Alaska Permanent Fund. This report is the second in an initial three-part series dealing with the development of the Alaska Fund. This report discusses a cross-section of World Funds ranging from the handling of resource revenues by other U.S. states, to Arab nation oil funds, including European Development Banks, the World Bank, and classic regional development banks such as those of Mexico and Puerto Rico, and finally resource based funds, such as the Alberta and Venezuela funds, which have a kinship with the curcumstances of the Alaska Permanent Fund.

The first Permanent Fund report dealt with crucial issues and options in the fund structure (April, 1977). The third report (June, 1977) will give a brief history of Alaskan attitudes toward government and "special funds," which likely will contribute to final shaping of the Alaska Fund. Successive reports will follow the actual development of the fund during the next several years.

May, 1977

CONTENTS

For the next year Alaska policymakers will be studying the potential philosophy, structure, and goals of the Alaska Permanent Fund. The 1978 legislature will be called on to give statutory definition to the fund, and that action will have a distinct impact on development, business and financial institutions, and the future economic and fiscal posture of the state.

In many respects the Alaska fund will prove to be unique, existing in a resource rich state, with a small but generally highly educated population, but with a climate tending to discourage an in-rush of new migrants.

The suggestion of the permanent fund naturally generates comparison with other significant funds. Therefore, in the following pages we will very briefly review and comment on other such resource-based funds in the United States, Canada, and other countries of the world. Such a review puts the Alaska Permanent Fund in perspective, and contributes to a feel for general philosophy and concept which Alaskans might wish to choose.

However, such a comparison leaves the impression that the Alaska Permanent Fund will not stand in the shadow of other similar funds, but rather has the potential of being among the more significant. The Alaska Permanent Fund will not only be a basic economic tool of Alaskan development and security, but will give Alaska standing and notice in the financial community, a rich resource in itself.

Development banks and special funds vary from the international world bank, to regional development banks, include development banks for the simple purpose of barrowing and relending (without any particular natural resource assets, and extend to a relatively small number of development bank funds, most akin to the Alaska situation, where the fund is heir to a significant income of natural resource revenue.

Generally the funds, or banks, fall into three categories, depending on their situation and activities.

1) International Institutions consisting of a membership a number of countries, with the purpose of fostering development and growth of a particular region. Example, The World Bank, Asian Development Bank, Inter-American Development Bank, etc. Such banks are usually a vehicle for industrial nation members (receiving no benefits) to channel funds to underdeveloped regions.

2) Government owned banks for the purpose of barrowing funds in the international market and translating then to target domestic development enterprise. Such banks barrow often from the international institutions (World Bank) and are a convenient vehicle for picking up government guarantees of such lending. Example, on a Alaska level the Alaska Housing Finance Corporation barrows mortgage money and relends those funds for housing through local banks (with state guarantees via an appropriated mortgage reserve).

3) Funds and banks restricted to a local geograhic area, or to a specific industry, and based on resource assets. This group contains the smallest number of funds, such funds are relatively new, with the majority based in the Middle East, and are usually funded by resource related revenues. Basically, the Alaska Permanent Fund fits this category.

For purposes of review we will first discuss various state funds, pertinent funds of foriegn countries, and then the large international funds, since much of the permanent fund "proposed" concept derives there.

SEVERANCE TAX AND ROYALTY INCOME DISPOSITION BY STATE

Following is a quick review of how various resource producing states dispose of resource revenue from severance taxes and royalties. State's which will be discussed specifically are excluded from the list below. How tightly the use of such funds are dedicated is worthy of note.

ALABAMA: Timber severance taxes support State Conservation Department restoration activities.

Coal severance taxes pays debt on docks and seaport facilities revenue bonds. The fund is reportedly now bonded to maximum.

ARKANSAS: Revenue from severance taxes returned to local counties.

CALIFORNIA: 56% of severance and royalty income goes for capital programs in California's higher education system.

22% special projects --irrigation and navigable waterways.

8% to State Conservation Department--

COLORADO: Severance tax goes into general fund.

IDAHO: Severance tax goes into general fund.

KANSAS: All oil, gas, mineral revenue goes to general fund.

KENTUCKY: Severance taxes go to short-term investments, a portion to be divided semi-annually with counties for special projects, with all remaining money going to the general fund.

LOUISIANA: 90% for state general income, 10% to parishes (counties).

MINNESOTA: 10% of taconite tax to state general fund, 90% to counties where produced. All royalties to general fund.

MISSISSIPPI: Timber severance tax, 50% Forest Redevelopment Fund, 25% to state general fund, and 25% to counties.

N. DAKOTA: 35% of coal tax goes to Coal Impact Office, then allocated special projects where coal is mined.

35% to Land Board Trust Fund (2/3 for environmental studies, 1/3 invested with proceeds to general fund.

30% to state general fund, and 5% allocated to counties.

OHIO: 75% of severance taxes used for restoration of orphaned strip mining land.

OKLAHOMA: 85% to the state general fund, 15% allocated to counties.

UTAH: All funds to state general fund.

GENERAL FUND VERSUS DEDICATION

It is interesting to note that the major oil producing states listed, except California, all tend to keep resource revenue unrestricted and place the funds in their general revenue accounts (Colorado, Kansas, Louisiana, Oklahoma). The mining and timber states tend to restrict revenue to special areas of expeniture --usually restoration activities. In other instances mining and timber states apportion a major part of funds back to producing counties, or to all counties in general.

It should be noted here that Alaska has been a general fund state to the extreme, with virtually all revenue going to the general fund, and then having to be sought by each spending sector on a basis (presumedly) of need and performance. Critics of highly restrictive, or dedicated funds, are quick to point out that proceeds of a dedicated tax is often more than sufficient at first, but then as growth and cost escalation takes place the funds are insufficient --yet the revenue has become an inflexible spending guide. Further, critics point out that some governmental units have become so mired in innumerable dedicated revenues that they could show an overall surplus but yet be on the verge of banruptcy due to not being able shift revenues to areas of need. One of the reasons for the breadth of the Alaska Permanent Fund, and for the deletion of severance taxes from the fund, is due to Alaskans hestitancy to depart from their tightly centralized general fund system. On the other side, Alaskans perhaps learned that the "general fund rule" is most applicable to states with normal revenue flow, where a few percentage points of excess, or discretionary new, revenue is the norm.

Hence, Alaska finding itself in the unusual world of excess revenue, in part saw the wisdon of removing large portions of funds from the temptation of day-to-day government spending, but still cautiously sought to keep such funds in a "broad concept" free of inflexible dedication --and capable of changing somewhat with changing demands of the state.

STATES WITH MORE SPECIFIC RESOURCE FUNDS

ARIZONA:

Arizona has a number of funds, of which the most significant is the New Mexico Permanent Fund created in 1898. The fund has assets of 10-million acres, and $675-million.

Income came originally from sale of state lands. Revenue currently is earned from oil, gas, and mineral royalties, income from land rental and grazing lands, and from capital gains on investments.

Management is exercised by the State Investment Council (governor, treasurer, commissioner of lands, finance officer, and four members appointed by the governor for five year terms.

Funds are invested from the permanent fund. Present apportionment is 18% equity, 32% corporate obligations, 50% U.S. government obligations.

Approximately 80% of the earnings of the fund go to the Arizona Public School System.

The second significant Arizona fund is the Severance Tax Permanent Fund, with capital of $103-million, with earnings derived from petroleum and mining. Management is by the State Board of Finance (treasurer, governor, lt. governor, and three citizen members.

Funds are invested in Certificates of Deposit of State Banks, who in turn make capital loans to the private sector. General loan appropriateness is left to the banks, although participation in sizable loans by the banks requires approval of the State Board of Finance.

Presently $94-million of the fund is in bank certificate of deposits maturing one-to-five years at a rate floating at the rate of short term treasury obligations plus 50 basis points.

The Arizona Severance Tax Permanent Fund can be looked at as a mild form of Development Bank operating at the discretion of the private sector.

TEXAS PERMANENT UNIVERSITY FUND

Texas is perhaps looked at as being synonymous with oil wealth, and in a vague sense its university fund is perhaps the best known of so-called state resource funds.

The Texas Permanent University fund has assets of 2.1-million acres of land in 19-west Texas counties and assets with a book value of $781-million. The fund was established in the Texas Constitution for the purpose of supporting a university.

Funds come annually from oil, gas, and water royalties, gains on investments, mineral lease rentals, and proceeds of any land sold. Income is invested as principal, and then earnings apportioned 2/3 to the University of Texas and 1/3 to Texas A & M.

Management of the fund is by direction of the Board of Regents of the University of Texas via the State Treasurer who holds the funds. The Regents are appointed by the Governor for six year terms with confirmation by the State Senate.

Funds may be invested in bonds of the United States, State of Texas, or counties of the state, school bonds, or bonds of any city or state. The funds may be invested in securities guaranteed by the United States, and in bonds, debentures, and preferred and common stock issued by corporations. However, not more than 1% of the fund may go into a corporation, nor may the fund control more than 5% of the voting stock of a corporation. Additionally, firms in which stock is acquired must be listed on the stock exchange and must have paid dividends for five consecutive years.

Presently of the $781-million held by the fund, $279-million is in corporate bonds and $254-million in common stocks.

The Texas fund might be best discribed as of the "trust fund," or savings account, variety, with funds going for a relatively narrow purpose. The funds go only for the University of Texas and Texas A & M, and then only for capital projects.

After Alaska had received the $900-million in oil bonuses in 1969, the Texas fund was often pointed to as an example "of how not to go," and the fact that once such "motherhood funds" are constructed that they become virtually impossible to dismantle.

WYOMING RESOURCE FUNDS

The State of Wyoming has three resource based permanent funds dealing with: 1) the University of Wyoming, and income from university dedicated lands, 2) monies derived from severance tax on minerals, and 3) monies derived as government royalties in minerals.

THE UNIVERSITY FUND has lands of 34,492 acres and capital funds of $8.5-million. Income is derived from lands dedicated to the University of Wyoming, with the State Treasurer being responsible for investment with proceeds being turned over to the Treasurer of the University.

WYOMING PERMANENT MINERAL TRUST FUND is a creation designed to retain monies collected from a severance tax on all minerals. The State Treasuer manages the funds and upon legislative approval the funds may be used for loans to local political subdivisions. The capital funds amount to $51-million. Income earned on the fund is placed in the state general fund.

WYOMING GOVERNMENT ROYALTIES FUND has land assets of 3.1-million acres and an undisclosed amount of capital funds. Monies are derived also from income from the state share of federal leases in Wyoming (50%). Funds go 50% to public school systems, 35% to the state general fund, 9% to the University of Wyoming, and 6% to counties. The funds are deposited with the treasuer, but since the fund was only created in 1975 the legislature has yet to address management detail.

REGIONAL DEVELOPMENT BANK TYPE-FUNDS

The most typical regional development bank examples are based in Puerto Rico, Pennsylvania, Sweden, Japan, and Mexico.

GOVERNMENT DEVELOPMENT BANK OF PUERTO RICO

The development bank was created in 1948 as a public corporation to 1) act as a fiscal agent for the Commonwealth, municipalities, and public agencies, and 2) to make loans to private enterprise which will aid in developing the economy of Puerto Rico. The banks charter provides that no changes in law may impair the obligations of the bank, and that the bank is exempt from the Commonwealth Banking Law.

In 1975 the bank had assets of $782-million, was originally capitalized by legislative appropriation, but today its capital is received from operations, capital notes (some guaranteed by the Commonwealth), and lines of credit with U.S. and Commonwealth banks.

The governing body is a seven member Board of Directors appointed by the governor for four year terms subject to the approval of the Council of Secretaries of the Commonwealth.

The bank is responsible for the timing and sale of bonds by the Commonwealth and its agencies, and between 1944-75 arranged for $11-billion in such barrowing. Additionally from 1944-75 the bank disbursed over $337-million in loans in the private sector (47% manafacturing, 22% for commercial buildings, 6% for hotels). In 1976 the bank had $165-million in business loans outstanding. The bank also issues its own full faith and credit notes ($40-million as of 1975), and is the clearing house for checks in the Commonwealth.

In 1975 the bank negotiated a $612-million note purchase agreement, guaranteed by the Commonwealth, with major mainland and Puerto Rican banks, to provide for a revolving credit line for the Commonwealth.

The Puerto Rican bank does not resemble what an Alaska Development Bank might look like, since the Puerto Rican bank takes on the comprehensive role of overall fiscal agent for the government in many respects, earns its profits from actual banking, and then seeks to reloan capital, and leverage capital, under a development bank concept designed toward Puerto Rican economic development goals. The bank is not a resource-based institution.

PENNSYLVANIA INDUSTRIAL DEVELOPMENT AUTHORITY

Created in 1973 the Authority has assetts of $266-million and capital of $226-million. The purpose is to relieve unemployment and economic stagnation by promotion of research and development in critical areas.

The Authority is permitted to make mortgage loans to non-profit Industrial Development Agencies, who in turn use the barrowed funds to finance private industrial projects below market interest rates.

Monies have come from aggregate legislative appropriations of $191-million between 1956 and 1975, from the proceeds of tax exempt bonds amounting to $72-million, and from repayment of principal and interest on outstanding mortgage loans.

The Authority is managed by a board of six cabinet level officials and seven lay members appointed by the governor for seven year terms. Monies held are invested according to state statute.

The present Pennsylvania Authority portfolio consists of $206-million in mortgages at interest rates ranging from 7/8 of 1% to 4% per annum, representing a considerable interest rate subsidy.

The Pennsylvania is a relatively narrow based Development Bank whose prime purpose is to barrow in the market and translate funds cushioned via state appropriations into industrial activity in areas of high unemployment. The authority resembles the Alaska State Housing Authority, or perhaps the Alaska Housing Finance Corporation (an ASHA affiliate), which the legislature appropriates a 2% mortgage reserve for to back a 98% barrowing in the market, with those funds being transfered into commercial banks for loaning under the guidelines of Alaska's moderate income housing finance program, Note: the Alaska Legislature gave AHFC $2-million mortgage reserve already in 1977, which could back $100-million in financing, with the corporations last loan package earning a good enough rate to float some mortgages below 8 per cent.

SWEDISH INVESTMENT BANK

Purpose to assist in financing industrial and commercial projects in Sweden consistant with national economic policies. Assets are $672-million with capital of $270-million. The bank depends of subscribed capital, reserves, net income, and cash flow from lending operations as a source of funds. The fund is not resource based.

The bank is governed by a Board of nine directors and nine deputy directors, with operational management resting with the Managing Director and staff. The staff is quite small consisting of 31 employees. Most staff consists of lending officers with previous investment banking experience.

The Swedish bank makes medium (5-10) and long-term (10-20) year loans and also guarantees loans, and is authorized to acquire equity. In 1974 the bank held $487-million in debt against $270-million in capital, for a ration of 35% capital to 64% debt.

It should be noted here that an Alaska Fund might also take its development bank portion of funds and increase, or leverage, those funds by acting as a barrower and relender. Hence, a $2-billion development bank portion might yield a total of $6-billion in total command of funds going into Alaskan field investment.

JAPAN DEVELOPMENT BANK

Established in 1951 the bank has assets of $11.4-billion and capital of $759-million. The bank's purpose is to supply long-term funds for industrial development and economic and social progress. Loans may be made for: 1) acquisition, construction, improvement of plant, 2) reclamation of land, 3) for acquisition of land and construction for urban redevelopment. Sources of funds are barrowings from the Japanese government, repayment of loans, and internal sources. Outstanding government loans to the bank are $9.3-billion, with other sources being foreign currency barrowings, and funds from the World Bank (all guaranteed by the Japanese Government). The bank is authorized to barrow an amount equal to 10-times its capital and statutory reserves.

It should be noted that while the Japan Development Bank is not a resource based institution, meaning it has no annual inheritance from oil, coal, and etc., the Japanese Government has acted to back the bank with capital in a very strong manner.

The Japan Bank is managed by a Governor, Deputy Governor, and eight Executive Directors, but also appointed are two auditors and six Counsellors. The Governor, Deputy and Auditors are appointed by the Prime Minister for four year terms, with the Governor then appointing the eight executive directors and counselors for two year terms. The executive directors are assigned various management functions by the Governor, but final authority (and therefore responsibility) to make decisions for the bank in all matters resides exclusively with the Governor.

It would be interested to learn the theory behind the finality of all authority assigned to the Governor of the Japanese Bank, and to know if the concept resembles the fixing of responsibility as in the Alaska central executive system --the concept being that the clear fixing of responsibility in itself is a preventative against mismanagement and mis-use of office by the chief executive (and his underlings).

The Japanese Bank lends money for the large part below the market rate, with the maximum being 9.2%, and for usual terms between 10 to 15 years. Most of the banks lending operations involve financing in cooperation with private financial lenders, with the Japan Bank taking the intermediate and longer term maturities and private banks taking the shorter maturities. Until 1960 the banks lending centered around electrical power, shipping, coal mining, and the iron and steel industry, but since then has become more involved in urban development and pollution control. Categories of investment are as follows:

-- 8% technological development
--15% energy
--21% ocean shipping
--12% regional development
--16% urban development
--14% pollution control
-- 3% quality of life projects

How well does the Japanese Bank perform --for the year ending in 1976 the bank earned $105-million, with $78-million going into statutory reserve and $26-million going to the national treasury.

MEXICO "NATIONAL FINANCIERA S.A.

Established in 1934 for the purpose of financing Mexican economic development, the bank has assets of $6-billion and capital of $555-million. The institution is a mixed private/public institution, but by law the Mexican government must retain 51% of the stock. In actuality the government owns 68%, with remaining stock being owned by other Mexican institutions.

The declared purpose of the institution is: 1) create employment, 2) improve personal income, 3) expand regional development, 4) centralize industry, 5) promote exports, and 6) foster economic independence.

Source of funds are capital funds contributed by government, retained earnings, and cash flow from lending operations.

The Mexican institution is managed by a Board of Directors with the Minister of Finance as Chairman, with certain veto powers retained by the President of Mexico. The Director General manages the institution, which has a total of 1,600 employees.

The National Financiera may provide direct loans, give loan guarantees, and participate in equity. However, the principal activity is direct lending with $4.9-billion outstanding. The Mexican institution is not resource based, but is heavily supported by government cash input and operates as a classic development bank.

THE WORLD BANK (Int'l BANK FOR RECONSTRUCTION AND DEVELOPMENT

The best known of development banks, the World Bank was drawn up in agreements at the Bretton Woods Conference of July, 1944, with membership initially covering 29 soverign states. The present membership is 127 states.

A bank of worldwide scope, rather than regional, the World Bank acts as a conduit of funds from economically developed nations to underdeveloped nations. The purpose of the bank is to facilitate investment of capital for productive purposes, supplement private foreign investment through guarantees or participation, and supplement private investment via loans from bank resources or barrowed funds.

The capital in the fund comes from member states and barrowings in U.S. and international capital markets, plus profits from operations, and resale of loans. The bank presently has assets of $29-billion, and paid-in capital of $3.1-billion. The bank operates with a 73% debt and 26% capital stock retained against guarantees and investments.

The World Bank is interesting in that it also has affiliated institutions such as the International Finance Corporation and the International Development Association. IFC makes loans and investments to private enterprise in 104 member countries, while IDA is to promote economic development in "less developed" countries (116-member countries). IDA loans go for terms as long as 50-years, and with very little interest.

Management of the World Bank is composed of a Board of Governors, one from each member nation, and 20-Executive Directors appointed by function.

The President of the World Bank is selected by the Board of Executive Directors. The bank has a staff of 3,500.

World bank loans must be to governments, or their instrumentalities, or if to private enterprise must be guaranteed by member governments, loans must be for productive purposes based on bank analysis, and the bank must consider the ability of the barrower to obtain foreign exchange necessary to service the loan. Loans are also carefully monitered to assess their economic and social contribution.

Since inception the World Bank has made $31-billion in loans to 95-countries, and currently has an outstanding loan portfolio of almost $28-billion. Largest barrowers are Brazil, Mexico, Korea, Yugoslavia, Columbia, Iran, Turkey, Philipines, and Nigeria.

The world funds and their affiliates are of interest, because it was to the management structure of these entities that state consultants on the permanent fund looked in making their recommendations for the management of the Alaska fund. The World Bank has a sizable staff partially due to the evaluation, technical assistance, and monitering that is a part of the bank's function. It is likely that an Alaska Fund would not have such a staff, and indeed might have a quite small one. Nevertheless, a subsiderary question in the development of the Alaska Permanent Fund will be " . . . to what extent evaluative services --not simply of benefit to the fund in analysis of a loan, but of use to the barrower in developing the loan and entire financial package-- and additionally, to what extent ongoing technical assistance, will be available to development loan packages. Such a decision will determine whether the Permanent Fund staff is large, or quite small.

It should also be noted that the Alaska Fund, like the World Bank, could construct affiliates to operate 1) in the less developed areas of the state, and 2) a second affiliate designed to grant very long-term loans at very low interest. The later affiliate would operate where their is extreme needs to meet employment and social problems, could receive special technical help and monitering, and would be "seperated" in such a manner so that the legislature and executive could "knowingly" watch the performance of this high risk unit. Additionally, the fund might be protected by the legislature reimbursing from the general fund a subsidy against the low-interest, or agreeing to <u>in principal</u> appropriate for the high risk frontier losses (note: the words "in principal" are used since no legislature can bind a future legislature --the arrangement would have to be one of moral commitment).

OTHER INTERNATIONAL DEVELOPMENT BANKS

Other International Development Banks tend to be more regional, and in most respects are similar in structure to the World Bank. Such banks will be discussed only briefly, and are: The Inter-American Development Bank, the Asian Development Bank, and the African Development Bank.

INTER-AMERICAN DEVELOPMENT BANK

Founded in 1959 the bank has assets of $3-billion, authorized capital of $6.3-billion, and paid-in-capital of $983-million. Membership consists of 24-American governments and 10-non-American governments.

The bank has a management structure of a board of one-each from member nations, and eleven executive directors. The board hires the President, and the directors the vice-president.

Loans are made to member nations, or are guaranteed by those nations. The bank has experienced two defaults totaling $11.2-million, and resulting in a net loss of $1.8-million.

Funds for the bank are derived from member nations, and also a number of special grant trust funds. A U.S. grant of $537-million funds the Social Progress Trust Fund --for land settlement, land improvement, low income housing, water supply, and sanitation (119-loans). The Special Operations Fund, from special subscription of bank members, deals with special curcumstances (special long-term loans, low interest). Assets 453-loans at $4.3-billion. The Venezuelan Trust Fund consists of $500-million granted by Venezuela in 1975, and loans are aimed at the "smaller members."

ASIAN DEVELOPMENT BANK

Established in 1966 and has assets of $2.8-billion, authorized capital of $3.3-billion, and paid-in-capital of $1.1-billion. Funds come from member nations. Managed by a Board of Governors and Board of Directors, but with most power vested in the Board of Governors. The bank has 31-member nations, and loans in 15-member countries. Loans to other industrial development banks 27%, for utilities 35%, transportation and communications 21%, agriculture 14%.

AFRICAN DEVELOPMENT BANK

The smaller of the banks the African Bank has authorized capital of $400-million, and issued capital of $370-million. Established 1964 it now has 39-members, 16 of which are in the U.N.'s list of least developed nations. Management is by Board of Governors through a Board of Directors.

Funds come from member country subscription, retained earnings, and barrowing, but the bank also operates the African Development Fund, a fund established by grants from 16-non-African nations, and a seperate organization of private participants, with the fund providing interest free loans for as long as 50-years. Present portfolio consists of loans in 31-countries for $192-million total.

EUROPEAN INVESTMENT BANK

The EIB established in 1957 by the same treaty creating the European Common Market (European Economic Community -EEC), consists of members of the EEC, with its purpose to contribute to the balanced and orderly development of the market among member states. Assets $6.4-billion, authorized capital $471-million, and paid-in-capital of $471-million.

A three tiered management structure consists of a Board of Governors (member each nation), a Board of 18-Governors, and a management Committee appointed by the governors on advice of the Board of Directors. In 1975 loans were apportioned 30% energy, 24% industry, and 17% transportation.

EUROPEAN COAL AND STEEL COMMUNITY

Established 1975 with assets of $3.5-billion (by treaty). Membership 9-European nations, with the purpose of the fund being to aid the economies of member nations through creation of a common market for coal and steel. The fund structure is highly complex and subjects itself to the Court of European Justice (treaty interpretation), and the European Parliment (which can compel the resignation of the governing commission). Income is derived from a monthly levy on participating countries yielding $100-million per year, and $3.3-billion in barrowing.

The European fund seeks to protect investments by government, bank, industrial guarantee, or by mortgage. In 1975 the fund earned revenues on investments of $307-million (57% interest, 26% levies, 15% from interest investment and contributions), and paid out 55% to pay interest (on fund barrowings for reloaning) and retained 16% excess, most of which went to the loan guarantee fund.

THE RESOURCE BASED FUNDS

A quite seperate catagory of special funds, development banks, and etc., are those funds based on a generous income from a natural resource. Contrary to popular belief they are somewhat rare, with several exceptions confined to the Middle East oil nations, and are relatively NEW!

Additionally, only several might be comparable to an Alaska Fund, since the Alaska curcumstance is one of a sizable special fund in a state with a relatively small population, a population highly educated, and existing in a sophisticated democratic and economic framework. The Middle East funds possess the initial curcumstance --the sizable fund-- but lack the remainder (education, democratic framework, economic sophistication). However, to a greater degree the Alberta Heritage Fund and the Venezuelan Fund offer some comparison.

SAUDI DEVELOPMENT FUND

Established 1974 the fund is believed financed directly from Saudi Arabian revenues. The fund is managed by a six member Board of Directors selected by the Council of Ministers. The purpose of the fund goes beyond Saudi borders to foster development with loans to developing states. The fund limits loans to no more than 5% of fund capital, and 50% of the project being financed.

Reported capital of the Saudi Fund is 10-billion Saudi Riyals, with total assets uncertain ($2.8-billion in U.S. dollars).

ARAB DEVELOPMENT BANK

A regional development bank established 1974. Authorized and subscribed capital $231-million. Membership 18-Arab nations with oil nations contributing greater capital, and other members only about $1-million each. Typical Development Bank Board of Governors/Board of Directors management structure. Much of portfolio goes to African nations, with present portfolio believed to be 20 - 25 loans in about 20 African nations.

ARAB FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT (Kuwait)

Organized by Arab League in 1968, with operations beginning 1973. Reported 21-member countries, with purpose financing of economic development projects in member Arab nations. Source of funds by subscriptions. Reported interest rates generally low --4% to 6%. Capital is $400-million Kuwait Dinars, and since 1973 loans totalling $93-million Kuwait Dinars have been made for 18-projects in nine nations.

ABU DHABI FUND FOR ARAB ECONOMIC DEVELOPMENT

A great deal is not known about the Abu Dhabi Fund, except that its funds come internally from Abu Dhabi revenues, and that loans exceeding $500-million are outstanding to the fund in 11 countries. Loans go to Arab, African, and Asian nations within the Islamic sphere.

ISLAMIC DEVELOPMENT BANK

Bank established in 1975, based in Saudi Arabia, capital $2-billion Islamic Dinars, paid-in capital $755-million Islamic Dinars.

The purpose of the bank is to foster development in Islamic countries, with present membership numbering 29-nations. The bank is permitted to purchase equity, make loans in the public and private sector, establish and operate trusts or special funds, assist members in matters of foreign trade and economic cooperation, and invest surplus funds. Funds come from members' capital subscriptions, leverage is permitted but not yet used. The bank uses the development bank, more typical foremat, of a senior board of Governors, then appointing a Board of Executive Directors and President to be responsible for management. Executive Directors approve all loans.

KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

Authorized capital $1-billion Kuwait Dinars, paid-in-capital $328-million Kuwait Dinars. The purpose is to assist Arab and other developing nations in development through loans and the guarantee of loans. Funds appropriated annually. Management structure is Prime Minister as Chairman of the Board, with nine other directors serving two year terms. Chairman appoints Director General of the fund. Net profits are credited to the reserve account until reserves equal 20% of capital, thereafter profits added to the capital of the fund.

COMMENTS ON ARAB RESOURCE FUNDS

It should be noted that the Arab funds are regional development banks, whose primary purpose reaches beyond the borders of the sponsoring nation, or nations. The funds are based on resource revenues, but not in a statutory or specified amount. Generally the capital comes from membership subscription or special appropriation by the nation, or nations, to the fund. The fact the funds are of relatively recent origin is of interest, and marks the rapid expansion of Middle East economic affairs that came with swelling oil revenues after the successes of OPEC in the early 1970's.

FONDO DE INVERSIONES DE VENEZUELA

Established in 1974 following the OPEC oil price increases, the fund has assets and capital of over $5-billion (paid in as of 1974 - 1975). The purpose of the fund is to: 1) create a professionally managed reservoir of public funds that would be kept out of the domestic money supply until needed; 2) to invest in external capital markets funds not immediately needed in Venezuela, 3) to assure a rational and diversified internal investment program designed to reduce Venezuela's dependence on oil revenues, and 4) to generate economic growth that creates full employment, redistributes national income, and encourages technological independence.

Sources of funds come from yearly allocations of oil revenues determined at the highest level of government and approved by the President.

Fund operations overseen by General Assembly consisting of State Ministers and high level government officials. Policy dictates from the Assembly and other high level political sources, with management by an Executive Directorate (specific investment decision level).

Internal staff divided into three groups: 1) International Financial Group (external market investments), 2) International Financial Cooperation Group (loans to non-Venezuelan government agencies), 3) the National Investment Group (debt and equity investments in Venezuelan entities). The Venezuelan Fund is one of the more sizable funds, and in just two years of allocations is about what the Alaska Permanent Fund might be expected to be by 1984.

COMMENTS ON THE VENEZUELAN FUND

The Venezuelan Fund is of interest because of its size and its basis on oil revenues. Secondly, like the Alaskan fund one of the purposes is to keep a deluge of public revenue temporarily out of the local money supply "until needed." In Alaska the same rational is geared towards problems of excess revenue government and government growth, while in Venezuela it is likely geared to the same plus inflationary and trade problems. Third, like the Alaskan Fund may have to do, the Venezuelan Fund recognizes specifically a need to invest prudently in external markets excess funds (keeping them out of the local supply and prudently invested). Fourth, the Venezuelan Fund like the Alaskan Fund has a declared purpose of diversifying with internal investment to reduce Venezuela's dependence on oil revenues. Fifth, the Venezuelan Fund declares normal investment bank purpose of investing to create full employment, redistribute income, and gain technological independence. Similarly in Alaska the fund seeks to smooth Alaska's economic cycles, and diversify the economy.

ALBERTA HERITAGE SAVINGS TRUST FUND

Established in May 1976 to invest a portion of non-renewable resource revenue to the future benefit of the people of Alberta.

The fund may invest up to 20% of its total in projects of long-term economic and social benefit to the people of Alberta, but which will not yield returns to the fund. However, funds in this category must be specifically appropriated by the legislature. The fund may invest up to 15% in loans to the Crown, or to other Provinces, or in loans guaranteed by the Crown.

An Investment Committee may invest in other loans yielding a profit to the fund and which strengthen and diversify the Alberta economy. The basic funding derived from original funding of $1.5-billion, plus 30% of the non-renewable resource revenue to be received in fiscal 1976-'77, and each fiscal year thereafter if the Legislative Assembly enacts a Special Act authorizing such transfers.

However, in the Alberta Fund is managed in a very ordinary government way, with the fund principally lodged in their equivilant of our Department of Revenue, with actual management in the Provincial Treasurer's Office. The Treasurer interacts with an Investment Committee composed of all 24-members of the Privincial Eexecutive Council.

It should be noted the fund has no ability to guarantee the loans of others, or to act to leverage its funds in a development bank manner.

COMMENTS ON THE ALBERTA FUND

The Alberta Fund could prove to be a sizable fund, and like the Alaskan Fund operates in a northern region, is not an absolute sovereign (a Province within a nation), and like Alaska exists in a modern democratic framework with a highly educated population.

In relationship to structuring, it is interesting to observe that Albertans felt little need to give their fund "political shelter," and instead clearly run the fund with the political principals in command. In addition, Albertans expressed caution in commiting infinite years of oil revenue to the fund, perhaps as Alaskan lawmakers were hesitant of such unilateral commitment and hedged on including severance taxes within the framework of the 1976 constitutional amendment creating the permanent fund.

GENERAL COMMENTS

The reader can draw their own conclusion from the previous brief rundown on the large world monetary funds. However, several things do stand out, and some of those features challenge some usual misconceptions.

First, while Alaskans were cautious in 1970 concerning rushing into dedicated resource funds, it would appear in looking at the World Funds that such caution was not unusual (and perhaps not unjustified). Some of the U.S. state funds date to the early 1900s, a few to the nineteenth century, but most of those funds also reflected quite narrow dedications and lack of flexibility is use of funds. A few of the regional development banks pre-date World War II (Mexico), but most date from the 1950s period. Lastly, quite contrary to what may be the standard conception, few resource based pre-date the 1970s.

Secondly, not only do few resource funds pre-date the 1970s, but they are relatively few in number (Alberta, Venezuela, Middle East), with most being keyed to the early 1970s run-up in oil prices and the creation of the "excess revenues problem."

Thirdly, it becomes obvious that there are few classic models to follow for something like the Alaska Fund, partly because other funds are of such recent history, and partly because Alaska's existance in a sub-sovereign condition in a sophisticated democratic and economic infrastructure is akin perhaps only to Alberta.

Thirdly, a variety of sophisticated management structures are reflected, with many funds opting to involve the fund in high levels of decision making, rather than attempting to insulate the fund (Alberta, Venezuela, Mexico, etc.).

Fourth, the structure forecast for the Alaska fund seems to require a complexity equal with the more complex of the development funds. The Alaska fund may be a trust account to earn future security, part development bank to loan debt, acquire equity, provide loan guarantees, to leverage and reloan barrowed funds, plus the overseerer of a Consumer Bank, or a consumer bank affilaite (or affiliates),designed to handle a large portfolio of consumer level loans (for which there is scarce capital or unreasonable terms). Note, the latter consumer orientation is perhaps a by-product of the Alaska fund existing in the previously mentioned condition of: 1) a sophisticated democratic structure, and 2) a sophisticated economic infrastructure.

Finally, in comparing the monetary funds it is difficult not to be impressed by the fact that the Alaska Fund may be among the larger funds, depending ultimately on what percentage of resource income (above the constitutional 25%) Alaskans wish to dedicate to the fund.

The Alaska Fund could rank among the world leaders, and therefore implicit in that fact is a challenge to Alaskans for management and control that will combine with "size" to make Alaska a credible and respected entity in the financial markets. In fact, the prestige of a well managed Al skan fund could spin off benefits to "investments Alaskan" completely outside the framework of the fund itself.

The Capital Needs Survey Materials (Project Work Sheet and Schedule of Projected Needs) mailed on August 24, 1977 to all 1st and 2nd class cities, to all boroughs, all home rule cities and federal reservations (Metlakatla).

Critics of a dedicated fund say that proceeds of a dedicated tax may be sufficient at first, but should this change at a later date, the revenue is still an inflexible spending guide. They point out that some governments have surplus revenue but since it is bogged down in various funds, they find themselves on the verge of bankruptcy. Proponents feel that the general fund rule is applicable to states with a normal revenue flow, but Alaska with it's excess revenue is wise to remove a portion from the day-to-day operations of government.

States with specific resource funds include Arizona with the New Mexico Permanent Fund with money primarily going to the public schools, and the Severance Tax Permanent Fund which is a mild form of development bank. Texas and Wyoming both have funds used primarily to finance capital improvements on their respective universities. Additionally, the Wyoming Permanent Mineral Trust Fund makes loans to political subdivisions while their Government Royalties Fund divides its monies between the public schools, the general fund, and the university.

The regional development bank type funds are based in Puerto Rico, Pennsylvania, Sweden, Japan, and Mexico and are not based on natural resources.
1) The Development Bank of Puerto Rico is a public corporation to a. act as a fiscal agent for the Commonwealth, municipalities and public agencies, b. make loans to private enterprise to aid Puerto Rican development and c. be responsible for timely sale of bonds.
2) The Swedish Investment Bank is involved in financing industrial and commercial projects in Sweden by making long-term and guarantee loans. They are authorized to acquire equity.
3) The Pennsylvania Industrial Development Authority's purpose is to relieve unemployment and economic stagnation by making mortgage loans to non-profit Industrial Agencies who in turn finance private industrial projects below market interest rates.
(similar to the Alaska Housing Finance Corporation)
4) The Japanese Development Bank supplies long-term funds for industrial development and economic and social progress.
5) The Mexico National Financiera SA has a primary purpose of financing Mexican economic development. It is a mixed private/public institution that provides direct loans, gives loan guarantees, and participates in equity.

The World Bank acts as a conduit of funds from economically developed nations to underdeveloped nations and makes loans to governments or private enterprises guaranteed by a member nation. Consultants on the AK Permanent Fund looked closely at the World Bank and it's affiliates regarding their management structure. The AK Permanent Fund could, like the World Bank, construct affiliates to operate in less developed areas of the state and to become involved in granting the long-term loans at low interest.

Other international development banks include the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, the European Investment Bank, and the European Coal and Steel Community. All these banks make loans to member nations or enterprises guaranteed by member nations. Funds come primarily from membership subscription retained earnings and borrowing.

The resource based funds include Saudi Development Bank, the Arab Development Bank, the Arab Fund for Economic and Social Development, the Abu Dhabi Fund for Arab Economic Development and the Islamic Development Bank. These banks all draw generous income from natural resources and are relatively new and rare. They are all regional development banks with additional capital coming from membership subscription or special appropriations from member nations. Also included in the resource based funds are the Alberta Heritage Savings Trust Fund and Fondo de Inversiones de Venezuela. Both funds are similar to the AK Permanent Fund. The Venezuelean Bank was established to keep a deluge of public revenue temporarily out of local money supply until needed and to reduce their dependence on oil revenue. They also recognize the need to invest excess funds in external markets. The Alberta Fund is similar to the AK Permanent Fund by location and their democratic framework. They make loans to strengthen and diversify the economy.

Interviews were conducted in 17 communities of the State in a distribution plan giving proportional representation to all sections of the State. The survey includes data from 359 personal interviews conducted by professional interviewers in the homes of qualified respondents for approximatly 1/2 hour during April and May, 1977. Applicants were all residents and adults of 16 years or older. The State was considered in five regions: Anchorage, Fairbanks, Southeastern, Southcentral, and rural Alaska.

Thirteen pre-listed goals were rated in the order of importance with the highest ranking being absence of crime, presence of work, quality of education, and purity of the environment. The "highest family income in the USA" and "sharing AK's wealth with all Americans" rated at the bottom. 65% of those interviewed listed additional goals of a more spontaneous nature in the following question.

The study presented three alternative budgets which were rated as follows: 55.7% preferre maintenance budgets ($800 million), 28.1% preferred expanded budget ($1 billion) and 13.4% indicated a preference for a smaller budget ($600 million). Based on analysis of the wording used by respondents, roughly 40% would make an effort to cut back on spending while 30% each are in favor of maintaining or expanding it. In reworking the budget of th 1977 Legislature, the public comes up with a similar budget. Rowan indicated that according to the data, as education increases so does the desire to cut back on the budget Conversely, the less education the greater tendency to increase the budget. 57% of the respondents felt the government should get as much federal money as possible while a previously non-existent group (38%) feel we should become less dependent on federal monies The public seems adamant about economizing in state government employees salaries with 55% concurring with the recent 5% increase and the remainder opposed to varying degrees.

34% of the public considers revenue beyond the operational budgetary needs to be capital for investment while 40% believe it to be income to be treated as other income in the State. As education level increases so does the inclination to treat excess revenue as capital. 55% of the population feels the way to handle money is to put it into the legislative allocation process, while 37% choose to return a portion of these funds directly to the people of Alaska.

PERMANENT FUND. The vast majority of Alaskans are thinking of ways of investing money wisely in Alaska and most ideas are similar to the capital improvement concepts emerging from the government. 72% felt "The Permanent Fund should be managed to assist Alaska directly through low-interest loans for such things as community development, fisheries enhancement, and so on." 18% chose high interest investment outside with interest used as loans or expenditures to meet Alaska's needs. The public appears to want to put as much as possible in the Fund after the operating expenses of government. With regard to annual earnings of the fund, 24% wish to use it to pay off debts, bond obligations, etc., 22% want to put it into loan programs, 16% want to put it back in the Permanent Fund, and 10% wish to give it to Alaskan residents. The Alaska, Inc. concept was referred to (without reference to the name) and was opposed by 51% with 30% in favor. $6% disagreed and 35% agreed that the earnings of the Permanent Fund should be added to the general fund of government. (No data as to whether public wants money returned to Permanent Fund). This survey marked the introduction of the Permanent Fund concept to intensive research thus the results must be taken in the context of a discussion over a subject not well known. The public hasn't made up its mind what the fund is, only that it should exist.

44% of the respondents wish to stay out of the problem of migration to Alaska, while 37% actively discourage migration and 13% actively encourage it. Regarding oil development: 51% believe if oil is in their locale development should take place, while 25% feel it should be developed everywhere but near their community. 38% of the respondents feel re-evaluation of the U. of A. is a high priority with 27% listing it as a moderate priority. 37% list re-evaluation of State police as high priority with 25% listing it as moderate priority.

There exists only one well-known problem with development banks as occured with the Ethiopian Development Bank when the industrial arm was moved to another bank. The existing functions did not provide adequate portfolio diversification and, once realized, the problem was remedied. Since development banks are an instrument of the government little, if any, likelihood of failure exists. The possible problems faced by development banks can be avoided if operating management is highly capable with adequate remuneration the appointment powers are removed from the political process, objectives and accountabilit requirements are clearly definied in the Charter, reasonable objectives are determined, and government influence is reasonably controlled to foster independence.

Price Waterhouse recommends that the Permanent Fund be a state-owned corporation with a dual board structure:

A. Board of Citizens with elected members from senatorial districts and empowered to recommend changes to the state legislature with regard to the charter of the fund. Also empowered to vote on policy statements of the fund. No compensation except expens
B. Board of Directors appointed by the Governor for staggered terms with confirmation powers vested in the legislature. They should be delegated with all the powers of the Permanent Fund except those reserved to the Board of Citizens. They would be responsib for decisions on all financing operations but not empowered or allowed to suggest or recommend any financial operation be considered or made by the fund. The President of the Alaska Permanent Fund would chair the Board of Directors.
C. President would be appointed by the Board of Directors for a term of reasonable duratio The position would include powers to conduct ordinary business of the fund and establis organization, appointment, dismissal and compensation for the officers and staff.

There is a formal post-audit process in most development banks involving collaboration between bank project staff, the borrower and third parties (consultants associated with the project). The over-all evaluation is three-fold:

A. Comparison of actual to planned financial performance. The project would be considered successful if it met the objectives, most of which are quatifiable.
B. The impact of over-all development of the economy.
C. The results of past performance as applied to future operations.

SOCIAL ORIENTATION

I. Income Redistribution - income from investments in safe securities would go to low income earners
II. Subsidization of Lower Income Families - structuring fund to provide financing to families who would have a difficult time getting it.
III. Geographic Redistibution of Wealth - principally invest in rural Alaska
IV. Support of a Specific Designated Social Objective: e.g., Endowment to Finance the University of Alaska
V. Directly Increase the Quality of Life of all Alaskans Through Various Subsidies - making lower interest loans available to all Alaskans regardless of income
VI. Provide vehicle to allow all Alaskans to participate more directly in the economic development of the state through an ownership position - creating a private corporation with stock given to AK citizens (AK, Inc.)

ECONOMIC ORIENTATION

VII. Subsidize small businesses through expansion of existing loan programs
VIII. Vehicle to bolster, beef up, and make viable Alaska's traditional industries, particularly fishing and forest products - would imply loan guarantees and purchases, bond burchases, and direct ownership of major projects
IX. Vehicle to create a more stable and broadly based economy - highest priority placed on financing of projects which would substantially alter structure of AK economy

FISCAL MANAGEMENT ORIENTATION

X. Vehicle to provide cushion for possible future revenue down returns - conservative investments with earnings re-invested in safest securities and used to fill gap of short-run decrease in revenue to Alaska as result of cyclical or temporary factors.
XI. Reduction in the state debt and/or the tax burdon on Alaska's taxpayers - having the effect of lowering the interest payments and improving state's bond rating

GENERAL COMMENTS

Alaska Pacific feels that the management of the fund in accordance with the intent of the Legislature and voters would imply a long-range orientation. They suggest that pursuing economic objectives and expanding tax base more effectively contributes to social objectives They recommend pursuit of objectives VIII and IX.

Structuring Decisions for the Alaska Permanent Fund:
A Conceptual Approach to the Allocation of Public Capital Resources
by: Tom Singer, Policy Development and Planning March 8, 1977

Public Sector Capital Allocation (public choice)

Making capital available to projects which can't get financing in private market (high-risk loans) is justifiable use for public monies of the Permanent Fund meeting social market demands. Therefore, the Legislature utilizing public input must identify objectives and measures for objective achievements. They must also develop a means of analysis to identify the positive and negative spillovers of projects.

Uniform Evaluation Criteria Based on Multiple Objectives

Some problems of cost-analysis (projects with greatest net benefit are funded until resources are used up) are: a) The choice of discount rate (social opportunity cost of capital/social rate of time preferences). Legislators may want to consider a low discount rate to reflect concern for future generations; and means of monitoring development bank for consistency in application of the rate. b) Uncertainty of analysis must be made clear in order not to misrepresent the information as fact rather than expert opinion. c) Measurement and valuation of non-market factors and spill-overs must occur. Goals and objectives must be determined to allow measurement of direct and indirect factors expected to result from projects. The following are methods by which impact of projects on social indicators (of lifestyles, etc) can be measures: 1. rely on analysts judgement based on experience & expertise, 2. contingency calculations (is this worth more . .) 3. surveys and questionnaires asking worth of non-market factors, and 4. rely on valuations of final decision-maker.

There are various types of analysis, most of them quite expensive. Singer suggests that a) loan applicants evaluate their own project against minimum pre-determined standards, and b) develop matrix to convey only critical information required by decision makers so that impacts can be directly compared against various objectives for the fund.

In order to have some order and control in trade-offs determining comparative value of projects, there are 3 techniques that Singer suggested. The scoreboard technique presents all data in natural units, rather than 1 basic unit like dollars, so that trade-offs can be readily seen. Another method is maximizing one goal and using other goals as minimum constraints. The greatest control occurs with the ranking of goals.

Singer feels that the Legislature should not only determine how PF money is invested but also the decision-making policy of those directly involved with granting loans.

AN ANALYSIS OF THE CONTRACT BETWEEN DR. DANIELS AND THE HOUSE COMMITTEE ON THE PERMANENT FUND CONTAINS FOUR SPECIFIC ITEMS FOR CONSIDERATION:

1. Suggest methods for management of the Alaska Permanent Fund which will assist community and rural economic development, regionalization or Permanent Fund capital investments, and stable regional economies in Alaska.

2. What refinements could be made in the Alaska Permanent Fund (current proposals HB 298, HB 300, HB 4, SB 357) in order to insure that its purposes and policies can in fact be carried out through its legal structure, capital structure and its management organization and mechanisms for accountability?

3. What problems have occurred during the initiation of similar funds in other parts of the country and world? What could Alaska do to be prepared for or to avoid these problems?

4. Suggest methods for management of the Alaska Permanent Fund which could stimulate development in small communities without major distortions in the state or local economy (including changes in per capita income and population growth)?

ACTUAL ISSUES ADDRESSED: Dr. Daniel's paper is structured around three issues:

1. The need for a comprehensive Alaskan economic development plan which recognizes the limits of state intervention in the economy and the appropriate uses of a development bank

2. Using the full resources of the Alaskan state government to plan for and contribute to a sound, balanced economy

3. Structuring the Alaskan Permanent Fund as one tool in Alaska's overall economic development plan

An abstract of the paper is attached.

METHODOLOGY: Dr. Daniel's approach to the questions presented contains the following caveat: "This (the uniqueness of the Alaska Permanent Fund existence and potential) leads me, as an outsider, to be doubly careful: first, in a short period of time I can only begin to understand the Alaskan political economy; second, I do not want to be precipitous in proposing specific solutions for the Alaskan economy based on experience in quite different settings."

This is a pure "Think Paper". Within the three issue structure outlined above, Dr. Daniels does consider all four of the items presented in the contract.

SPECIFIC CONTRACT COMPLIANCE: The issues presented in the contract were considered in Dr. Daniel's paper. Specific conclusions are contained in the attached abstract of the paper. Generally, Dr. Daniels warned that development banks cannot create economic activity, and that investments of permanent fund monies in Alaska should be based on market return - classic economic measures - with the possible exception of economically feasible joint ventures with rural regional development corporations.

The paper also creates an overall awareness of the essential need for a comprehensive Alaskan Economic Development Plan including a consideration of the infrastructure requirements necessary to facilitation of such a plan.

'Report to Investment Advisory Committee re: Domestic, National, And International Banks
By: White, Weld and Co. October 1, 1976

I. Domestic Permanent Fund (including funds in Montana, New Mexico, Texas & Wyoming. Also summary of states which accumulate natural resources income in trust funds)

The funds cited focused on States receiving income from natural resources in land and minerals where: 1) income was spent primarily on a current basis, 2) the funds are primarily managed by the State Treasurer, and 3) the purposes of the funds include investment in public school systems, financing capital improvements, investment in state ecological environments, and loaning to political subdivisions.

II. Domestic Economic Development Programs (Also includes a summary of State general assistance, incentives and special services to industry)

Governmental Development Bank of Puerto Rico: 1) acts as fiscal agent for Commonwealth, 2) makes loans to private enterprise, and 3) functions include: sale of bonds & notes by Commonwealth, issue of own full-faith and credit loans, and central clearing house for checks in Commonwealth.
Pennsylvania Industrial Development Authority: 1) purpose is to alleviate unemployment and economic stagnation and make mortgage loans to non-profit Industrial Development Agencies, and 2) funds are from aggregate legislative appropriations, proceeds of tax exempt bond issues, and repayment of principle and interest on outstanding mortgage loans.

III. National Institutions (including Swedish Investment Bank, Ltd., Japan Development Bank, and National Financiera S.A. - Mexico)

1) All these banks are governmentally owned
2) Are responsible for carrying out national economic policy.
3) For purposes of assisting in financing industrial and commercial projects
4) The source of funds is borrowings from the government, repayment of loans and internal sources.

IV. International and Regional Development Institutions (including the World Bank, Inter-American Development Bank, Asian Development Bank, African Development Bank, Euopean Investment Bank, European Coal and Steel Community)

1) Membership consists of several countries
2) Purpose to foster economic growth of particular region or it's members
3) Generally non-political and commercial in operations
4) Source of funds from capital subscription of members, local and international borrowing (usually heavily)
5) Activities consist of direct lending in member countries for social and economic benefit
6) Generally managed by Board of Directors or Governors with members from or authorized by member countries.
7) The European Investment Bank and the European Cola and Steel Community related to Common Market activities

V. Natural Resources Related Institutions (Saudi Development Fund, Arab Bank for Economic Development in Africa, Arab Fund for Economic and Social Development, Abu Dhabi Fund for Arab Economic Development, Islamic Development Bank, Kuwait Fund for Arab Economic Development, Fondo de Inversiones de Venezuela, Alberta Heritage Savings Trust fund)

1) Functions limited to particular geographic area for purpose of promoting economic growth & development, and achieve social objectives
2) Primarily based on natural resource revenue, particularly oil related
3) Sources of funds is primarily membership subscriptions and allocated funds
4) most of the funds not yet fully operational

A PROSPECTUS OF THE STATE OF ALASKA'S FINANCES AND ITS DEVELOPMENT OF ECONOMIC DIVERSITY. prepared by: Morgan Guaranty Trust Company of New York, 1/12/76

Alaska government is moving in the right direction of returning to a balanced budget. Debt per capita must be reduced and government size should not rise. The Permanent Development Fund (PDF) will not be successful unless it generates fund surpluses and utilizes top quality management.

Municipal Bond Bank may be a good vehicle for aiding AK communities, however, it has deficiencies: bond anticipation note authorization, moral obligation is a dead issue in the market place, and lack of State control.

Morgan suggests one commission for capital allocation and control be established with authority for debt authorizations with management and financial controls on same, capital allocation authority, scheduling all public sales, and establishing and managing a local government financial advisory group dealing with day to day operations and fiscal and debt management.

The Departments of Commerce and Economic Development, Public Works, Revenue, and Community and Regional Affairs should be consolidated into 1 major commission responsible for approval for aid programs of other departments and capital spending. The PDF should be a part of this "super" commission utilizing their capabilities and analysis abilities.

AK must be careful not to borrow methods from established organizations which are not applicable to AK's particular uniqueness (AK has its own source of equity unlike The World Bank, Asian Development Bank and a few others). PDF must join with private enterprise in economically sound and financially feasible projects. Additionally, it must export or deliver products to viable markets to be successful.

According to Morgan, PDF must be corporate in structure with high paid quality management and personnel. It must be profit-seeking in motive and long-term entrepreneurial in scope. The PDF should provide capital for 1)The AK Development Corporation (ADC) to establish expertise in developing the economy, and 2)the ADC to create a Development Bank (DB) to make project loans, and 3)the ADC to create the Finance and Investment Company (FIC) to package project loans to be sold to institutional lenders in the lower '48 and the world. Additionally the FIC would manage a series of investments in mutual funds or trust for smaller institutions and individuals to buy into.

Morgan cites some other specifics of the PDF:

1) the PDF should only participate in major developmental projects
2) projects should be capital intensive
3) PDF should involve itself in long term loans in partnership with private industry and lenders rather than equity participation
4) PDF should finance "missing links" in otherwise viably forecasted projects
5) No other organization should be allowed to be equity holders in PDF or it's subsidiaries
6) PDF should create a steering committee to establish priorities studying the economy and geographical needs
7) PDF must necessitate that Native Corporations develop major projects in concert with PDF and, in like manner, they may be able to gain from PDF enterprise be creation of new villages and certain ancillary services
8) PDF may have to establish a subsidiary to expand education and other necessities which diversify the economy charging private market rates
9) no grants or non-interest loans should be made by PDF
10) PDF must be insulated from vested interests and political suasion
11) must develop ways of effecting leverage of PDF's equity capital
12) Statutes involving state government financing and lending should be reviewed

The Alaska Permanent Fund in Perspective

One of Alaska's constitutional hallmarks was prohibition against dedicated revenue. In 1976 a constitutional amendemtn was passed allowing a broad-based fund (Permanent Fund) to include 25% of all incoming oil and other resource revenue from royalties, fees, land rents, and other bonus payments. The only restriction was that the money must not be spent on the general operations of the government and must maintain the principle and produce income. Initially, the fund was seen as a means of excluding a certain percentage of the excess revenue from operational state spending.

Permanent Fund Legislation

March 3, 1977, Hammond introduced HB 298 relating to the management of the Permanent Fund. On the same day, the House Special Committee introduced HB 300, similar to Hammond's bill but including legislative perogative for Permanent Fund management.

HB 298 cast the Permanent Fund as a "super-bank" with a great deal of autonomy from the operations of the executive and legislative branches. It creates the Alaska Permanent Fund Corporation within the Department of Revenue with an independent legal existence. HB 298 provides for 50% of mineral lease income, royalty income, and bonus payments to be placed in the Permanent Fund. HB 300 places 100% of the bonus payments in the Fund. Oil and gas (mineral) severence tax continues to be placed in the General Fund.

The present legislation tends toward a development bank concept but the goals of same tend toward "trust for the future" and consumer benefits. The preamble of the legislation speaks of diversification of the Alaskan economy by investments in non-renewable and renewable resources, smoothing cyclical patterns of growth, encouraging participation of private capital, promoting capital for community development, and supplementing private investment.

Administrative and legislative bills both opt for the split concept in the Permanent Fund: 1) 40% investment grade securities (savings account priniciple), 2) not more than 30% to provide reasonable proportion of longer-term investment capital (development bank), and 3) not more than 30% for investment capital for community development (consumer bank). Pending legislation also gives the power to raise capital and borrow against the assets of the Permanent Fund and grant debt guarantees.

Structure of Fund Management

The Permanent Fund Policy Board consists of the Commissioners of Revenue and Commerce, and 7 members appointed by the Governor for 4 year terms. Confirmation of the Policy Board is still at issue in the legislative and executive legislation. Members are removable for cause. The Chairman of the Policy Board would be the President of the Corporation. The duties of the Policy Board are: policies of investment, selecting the Investment Committee, relations with the legislature and public, reviewing investment and performance, and providing reports and audits of the Fund.

Beneath the Policy Board is the Investment Committee of 4 members and a President. Their sole responsibility is investment. There exists a separation and balance of powers between the Policy Board and the Investment Committee. The staff of the "superbank" management operations has much flexibility in determining terms of debt, etc.

The Fund will probably be able to borrow to expand development bank capital, sell securities and debt to other mortgage markets, and make investment in financial intermediarys.

Problems of the Permanent Fund

1) Due to the smallness of Alaska, there may be trouble in finding people with the expertise and knowledge that don't have "special interests" to staff the Fund Corporation.
2) If the Legislature doesn't have confirmation power over the Policy Board membership, public accountability becomes even more difficult and would leave accountability entirely up to the Governor.